



Finance Committee Meeting

April 30, 2001

| Committee Members |

Mr. Herbert S. Winokur, Jr., Chairman
Mr. Robert A. Belfer
Mr. Norman P. Blake, Jr.
Mr. Ronnie C. Chan
Mr. Jerome J. Meyer
Mr. Paulo V. Ferraz Pereira
Mr. Frank Savage
Mr. John A. Urquhart

EC004403740

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GOVERNMENT
EXHIBIT
310

Crim. No. H-04-25 (S-2)

Agenda

EC004403741

AGENDA
Meeting of the Finance Committee
of the Board of Directors of Enron Corp.

4:00 p.m. (CDT), April 30, 2001
50th Floor Boardroom, Enron Building
Houston, Texas

| | | Page |
|--|--------------|------|
| 1. Approval of February 12, 2001 Finance Minutes subject to final legal review | Mr. Winokur | 1-1 |
| 2. Financial Reports | | 2-1 |
| A) Chief Financial Officer Report | Mr. Fastow | 2A-1 |
| B) Deputy Treasurer Nomination Discussion | | 2B-1 |
| 3. Treasurer Report | Mr. Glisan | 3-1 |
| 4. Chief Risk Officer Report | Mr. Buy | 4-1 |
| Quarterly Risk Update | | |
| - Enron's Assets | | 4-2 |
| - Trade Credit Update | | 4-3 |
| - Investment Portfolio | | 4-11 |
| - Enron Energy Services | | 4-16 |
| - Market Risk Update | | 4-23 |
| 5. Projects and Amendments | | 5-1 |
| A) Revision to the Risk Management Policy | Mr. Buy | 5A-1 |
| - Approve for Recommendation to the Board | | |
| B) Revision to the Transaction Approval Process | Mr. Buy | 5B-1 |
| - Approve for Recommendation to the Board | | |
| C) Minority Financing Vehicle | Mr. Causey | 5C-1 |
| - Approve for Recommendation to the Board | | |
| D) Las Vegas Cogen II | Mr. Calger | 5D-1 |
| - Approve for Recommendation to the Board | | |
| E) Cuiaba Integrated Energy Project | Ms. McDonald | 5E-1 |
| - Approve for Recommendation to the Board | | |
| F) CEG Rio Divestiture | Mr. Stabler | 5F-1 |
| - Approve for Recommendation to the Board | | |
| G) Project Red Rock | Mr. Horton | 5G-1 |
| - Approve for Recommendation to the Board | | |
| 6. Other Business | | 6-1 |
| 7. Adjourn | | 7-1 |

EC004403742

See Addendum for Deal Approval Sheets approved between Board meetings

Agenda Item 1

EC004403743

Enron Corp

Finance Committee Minutes

from February 12, 2001 meeting

EC004403744

DRAFT

**MINUTES
MEETING OF THE FINANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
FEBRUARY 12, 2001**

Minutes of a meeting of the Finance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 4:00 p.m. C.S.T., but actually begun at 4:05 p.m., C.S.T., at the Enron Building, Houston, Texas.

The following Committee members were present constituting a quorum:

Mr. Herbert S. Winokur, Jr., Chairman
Mr. Robert A. Belfer
Mr. Ronnie C. Chan
Mr. Jerome J. Meyer
Mr. Paulo V. Ferraz Pereira
Mr. Frank Savage
Mr. John A. Urquhart

Committee member Blake was absent from the meeting. Directors Wendy L. Gramm, Ken L. Harrison, Kenneth L. Lay, John Mendelsohn, and Jeffrey K. Skilling, Messrs. William S. Bradford, Richard B. Buy, Richard A. Causey, Timothy A. DeSpain, Andrew S. Fastow, Ben F. Glisan, Jr., David G. Gorte, Mark E. Koenig, and Jordan H. Mintz, and Ms. Rebecca C. Carter, all of the Company or affiliates thereof, and Mr. Richard N. Foster, of McKinsey & Company, Inc., also attended the meeting.

The Chairman, Mr. Winokur, presided at the meeting, and the Secretary, Ms. Carter, recorded the proceedings.

Mr. Winokur called the meeting to order, noted that a draft of the minutes of the meeting of the Committee held on December 11, 2000 had been distributed to the Committee members, and called for any corrections or additions. There being none, upon motion duly made by Mr. Winokur, seconded by Mr. Meyer, and carried, the minutes of the meeting of the Committee held on December 11, 2000 were approved as distributed.

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Mr. Winokur called upon Mr. Fastow to present the Chief Financial Officer's report, a copy of which is filed with the records of the meeting. Mr. Fastow discussed the Company's current and projected key financial ratios, including coverage and leverage ratios, and stated that the ratios were based on the current plan. He noted that since the beginning of the year there had not been any purchases of the Company's stock for the trading portfolio but that during January the Company had purchased approximately one million shares now held in treasury. He presented a chart depicting the Company's interest rate exposure and noted the dollar amounts at fixed and at floating interest rates. He then reviewed the Company's cost of capital, utilizing the CAPM Black Scholes valuation method, and discussed changes from the last report to the Committee.

Mr. Winokur changed the agenda to discuss the Company's transactions with LJM later in the meeting and called upon Mr. Glisan for the Treasurer's report, a copy of which is filed with the records of the meeting. Mr. Glisan reviewed the liquidity report as of January 29, 2001 and noted that the Company's total liquidity was currently over \$8.3 billion. He then reviewed the Company's outstanding letters of credit and discussed the changes since yearend. He presented the Company's guarantee portfolio as of yearend and noted that required guarantees continued to be higher than normal due to the significant increase in the volumes transacted by the Company. He then stated that there had not been any change in the Company's ratings by the rating agencies but noted that the Company was working on being upgraded to "positive outlook" by Standard & Poors. Mr. DeSpain joined him for a discussion of the zero coupon convertible debt security recently issued by the Company.

Mr. Winokur called upon Mr. Buy to present the Chief Risk Officer's report, a copy of which is filed with the records of the meeting. Mr. Buy distributed a handout titled "Supplemental Schedules", a copy of which is filed with the records of the meeting. He reviewed the Company's major relationship credit exposures and all of the Company's trade credit exposures that were in excess of \$50 million. He then discussed the Company's internal rating of each company, the Company's total exposure, and any collateral held by the Company. He noted that only three of the major relationship credit exposures had a below investment grade rating. He then reviewed the cash and other collateral that the Company had received from or paid to its counterparties as of February 8, 2001. Mr. Skilling joined him for a lengthy discussion of the situation in the California energy markets and the efforts by the Company to mitigate its credit exposure.

EC004403746

Mr. Buy then began a discussion of the Company's merchant portfolio and noted that there had been a significant increase in the Company's gross and net credit exposure since the end of the third quarter 2000. He then moved to a discussion of the Risk Assessment and Control ("RAC") group's analysis of Enron Energy Services LLC ("EES"). He noted that EES had made significant progress in continuing to develop projects and obtaining customer approvals and that EES's project installation phase was now ahead of the plan. He stated that the RAC group had completed an energy asset management verification project to evaluate EES's actual performance relative to its initial engineering estimates. He stated that the total net present value of all projects was close to the original projected value but the standard deviation was quite high. He noted that the RAC group had determined that the issues facing EES included a wide range of distribution of the energy efficiency of the outcomes and an increased need for a premeasurement process to validate actual energy savings on individual projects. He reviewed the additional steps that were being undertaken by the RAC group to complete the analysis of EES's business and commented on the impact of the California energy crisis on the business efforts. He updated the Committee on the efforts of the EES and RAC task force and Mr. Skilling joined him for a discussion of certain recent management changes at EES.

Mr. Buy then began the market risk update by discussing the profit or loss that each commodity group had earned during 2000 compared to the average Value at Risk ("VAR") it had taken. He then presented the same information by business unit and specific commodity. He reviewed the VAR limit utilization by commodity for each quarter of 2000 and gave an overview of the VAR backtesting. He then presented four stress scenarios that had been analyzed by the RAC group and commented on the potential impact of each scenario on the Company's earnings. He noted that the potential impact of one of the scenarios had already been somewhat mitigated since the analysis was done. He then presented stress testing of the Company's exposure under "worst case" scenarios of 5% and 25% shifts in commodity prices.

Mr. Buy then discussed the Company's foreign exchange exposure by business unit and commented on the amounts that would be recorded in the Company's currency translation account and income statement. He reviewed a sensitivity analysis comparing the Company's foreign currency exposure in South America to that of all the other business units and provided an update on the status of the RAC group's overall foreign exchange project. He then began a discussion of the proposed changes to the Enron Corp. Risk Management Policy ("Policy"). He noted that the first change was to increase the aggregate VAR limit by \$25 million and Mr.

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Skilling joined him for a discussion of the reason for the purposed increase. Mr. Buy then stated that the remaining changes to the Policy related to the following areas: 1) increases to the net open position limit, maturity /gap limit, and/or VAR for certain existing commodity groups, 2) establishing permanent net open position limits, maturity /gap limits, and/or VAR limits for certain commodities currently under the interim limit section of the Policy, 3) providing for notification of limit violations and loss notifications to the President and CEO ("CEO") at the discretion of the Chief Risk Officer ("CRO"), rather than the existing structured reporting, 4) delegation to the CRO the authority to allocate the discretionary VAR to facilitate a new market-driven allocation framework, rather than requiring both the CRO and the CEO to approve, 5) clarifying certain aspects related to the cross-commodity trading section of the Policy, and 6) specifying the operational control requirement that all trades executed over the telephone must be recorded electronically. Following a lengthy discussion, upon motion duly made by Mr. Ferraz, seconded by Mr. Chan, and carried, all of the proposed changes to the Policy with the exception of items 3 and 4 above were approved for recommendation to the Board.

Mr. Winokur then called upon Mr. Buy to discuss the proposed changes to the Transaction Approval Process ("TAP"). Mr. Buy stated that the proposed changes to the TAP were recommended to take into account certain reorganizations at the Company and to add capital expenditures to the risk adjusted capital definition to determine the aggregate exposure in transactions. Following a discussion, upon motion duly made by Mr. Ferraz, seconded by Mr. Urquhart, and carried, the proposed changes to the TAP as presented at the meeting, were approved for recommendation to the Board.

Mr. Winokur then called upon Mr. Gorte to begin the Eli Lilly presentation. Mr. Gorte noted that the Board approved a transaction with Eli Lilly in December of 2000 and the Company was recommending adjustments to the deal structure to: 1) decrease the approved energy asset project capital, 2) add LLC capital and mobilization costs, and 3) add a lease component to finance capital replacement expenditures. He reviewed each of the recommended adjustments and noted that it would not cause a significant increase in the risks of the project. Following a discussion, upon motion duly made by Urquhart, seconded by Mr. Savage, and carried, the proposed Eli Lilly project presented at the meeting, was approved for recommendation to the Board.

Mr. Winokur then called upon Mr. Glisan to begin the Project Crane presentation. Mr. Glisan stated that when the Board initially approved Project Crane the resolution did not provide the Company the flexibility to

close the transaction on balance sheet, therefore, management was recommending an additional resolution to provide this flexibility. Following a discussion, upon motion duly made by Mr. Meyer, seconded by Mr. Urquhart, and carried, the modification to Project Crane as presented at the meeting, was approved for recommendation to the Board.

Messrs. Bradford, DeSpain, Glisan, Gorte, and Koenig and Directors Gramm and Skilling left meeting.

Mr. Winokur called upon Messrs. Causey and Fastow to review the Company's procedures regarding transactions with LJM and the transactions completed in 2000. Mr. Fastow began with a discussion of the Company's utilization of the LJM vehicles. Mr. Causey reviewed each of LJM's investments with the Company that were made during 2000. He categorized the investments into four areas, balance sheet, hedges, income statement, and other, and presented a brief description of each transaction and the notional dollar amount. He then reviewed the Company's internal policies and procedures that were in place to monitor transactions between the Company and LJM, stated that the items had also been discussed with the Audit and Compliance Committee, and commented that the process was working effectively. He also noted that the Company had implemented supplemental efforts to complement the Board-established guidelines regarding transactions between the Company and LJM.

There being no further business to come before the Committee, the meeting was adjourned at 5:45 p.m. C.S.T.

Secretary


APPROVED:

Chairman

EC004403749

Agenda Item 2

EC004403750



Enron Corp.

Financial Reports

April 30, 2001

EC004403751

Agenda Item 2a

EC004403752



Enron Corp.

Chief Financial Officer Report April 30, 2001

EC004403753

Finance Issues/Exposures

- **Stock Activity**
- **Interest Rate Exposure**
- **Refinancing Risk**
- **Stock Price Risk in Financings**
- **Finance Related Asset Sales**
- **Funding Sources**
- **Liquidity**
- **Workouts**

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Enron Stock Activity

(000) except Share Price

Stock Trading Activity - MTM

| Description | Shares (000) | Avg Price | Amount |
|-----------------|--------------|-----------|--------|
| Opening Balance | - | - | - |
| Transactions | - | - | - |
| Ending Balance | - | \$ - | \$ - |

| EGF Equity Position Limits | V@R | Notional open |
|---|---------|---------------|
| Limit (\$MM) | \$10.00 | \$300.00 |
| Current position (\$MM) | \$0.00 | \$0.00 |
| -Position limits exclude ENA position which is reflected in ENA equity book position report | | |
| -Includes 60% of JEDI if an open position | | |

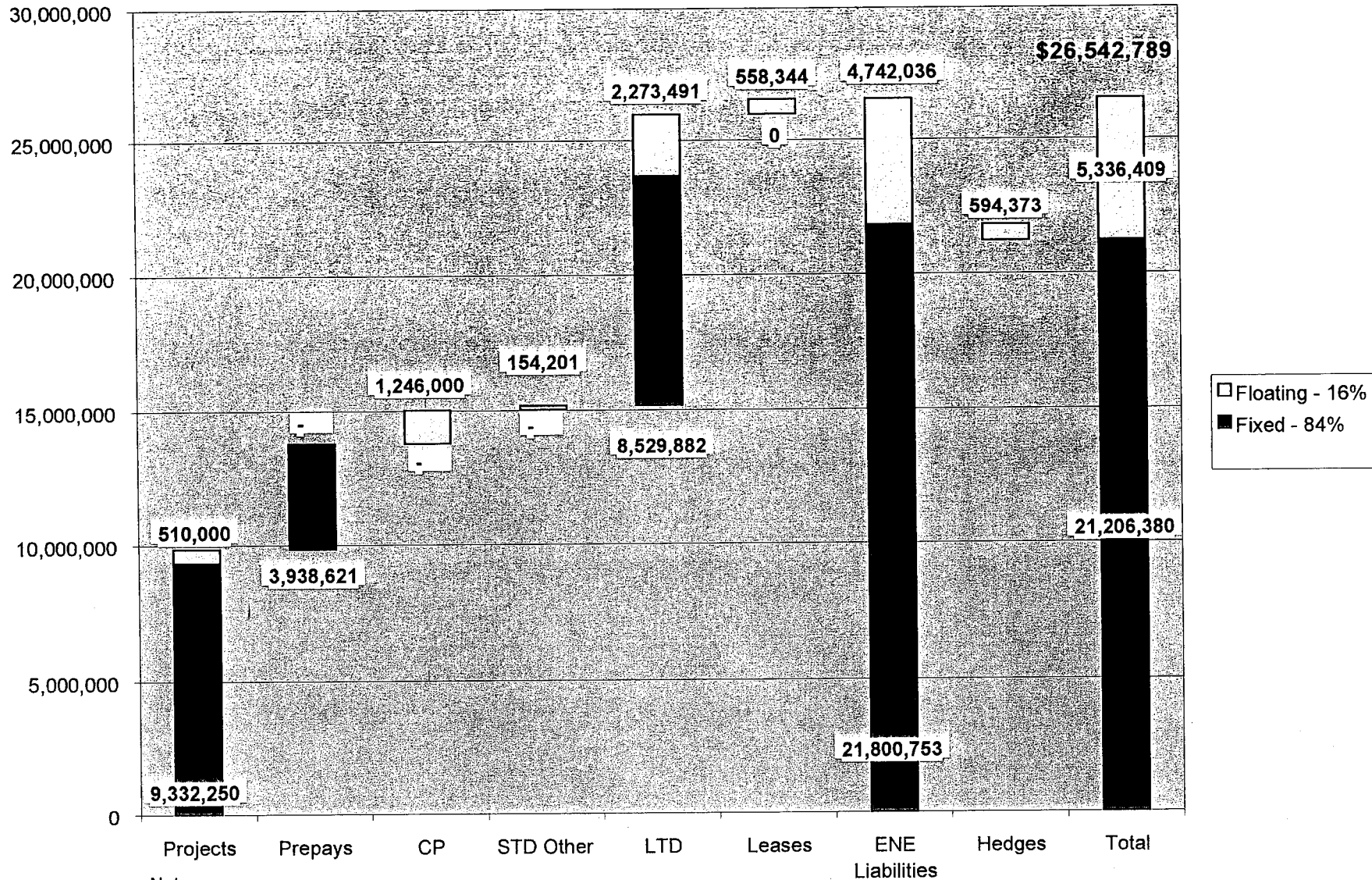
Stock Purchase Activity (Treasury)

| Description | Shares (000) | Avg Price | Amount |
|-----------------|--------------|-----------|------------|
| Opening Balance | 577 | \$ - | \$ - |
| Repurchases | 4,199 | \$ 78.95 | \$ 331,520 |
| Other Activity | (851) | | |
| Ending Balance | 3,925 | | |

| | |
|--|------------|
| Authorization, Subject to Jim Derrick's approval | 20,000,000 |
| Activity | 4,199,000 |

X

Interest Rate Exposure



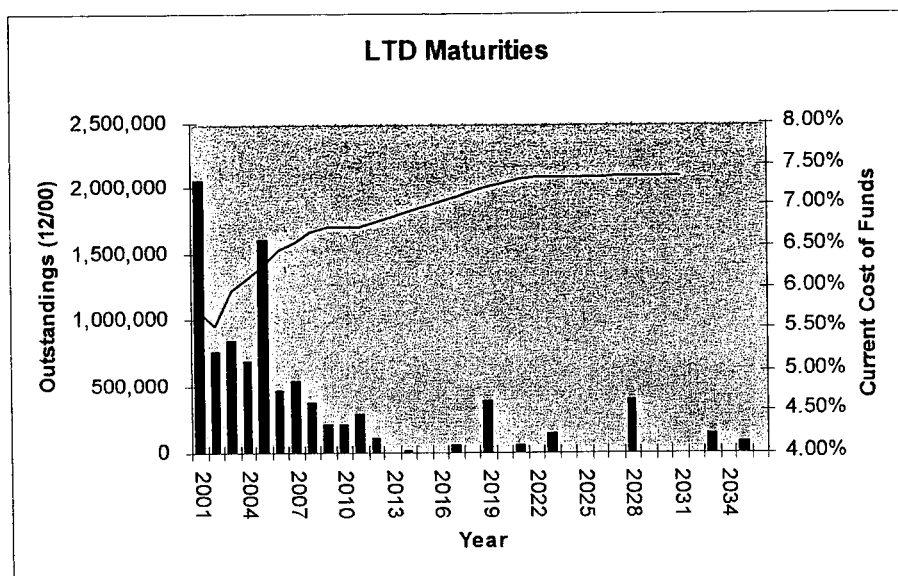
Notes:

1. Current CP Balance of \$1,246 MM represents 23% of floating rate debt.
2. EGF goal of 80/20 fix/flt composition.

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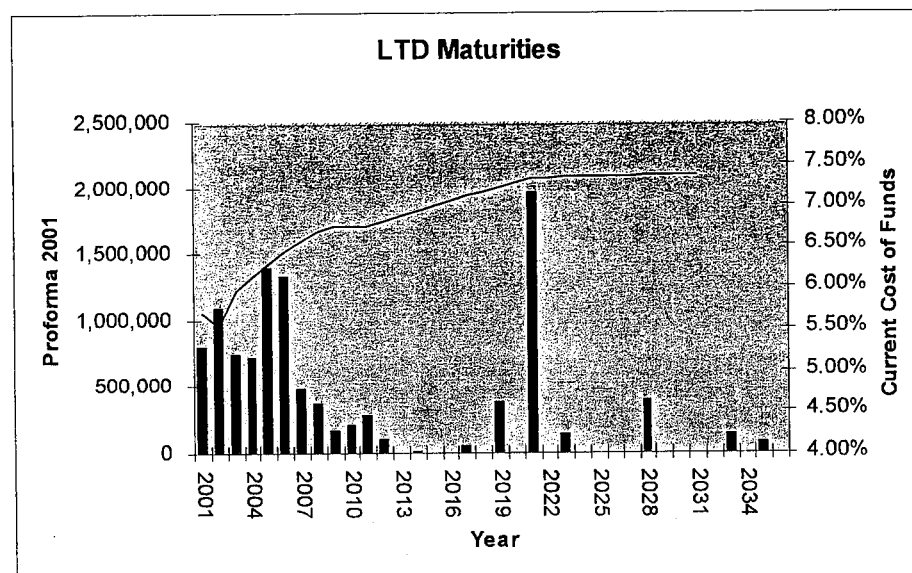
Refinancing Risk

As of December 31, 2000



-Average Life: 6.33 years

Proforma 2001



-Average Life: 9.31 years

- \$1 billion tender and exchange will extend short term debt out five years
- \$1.25 billion Convert issued in January

Stock Price Risk in Financings

Potential Required Future Equity issuance

4 transactions of future stock price risk

| | Equivalent Shares (000's) | | | | |
|----------|----------------------------------|--------|-------|-------|------|
| | \$40 | \$50 | \$60 | \$70 | \$80 |
| Osprey | 10,688 | - | - | - | - |
| Raptor 1 | 11,683 | 7,149 | 2,666 | 1,197 | 95 |
| Raptor 2 | 11,733 | 5,219 | - | - | - |
| Raptor 4 | 11,237 | 7,358 | 4,771 | - | - |
| | 45,341 | 19,726 | 7,437 | 1,197 | 95 |

Assumption - the value of the other assets were zero how much
Enron stock would need to be contributed

-Osprey matures in 2003

-Raptor vehicle share issuances are triggered by date

-Osprey shares trigger in 2003

-Q101 Restructuring shares trigger in 2005

Finance Related Asset Sales

(\$MM)

Sales of Financial Assets (125)

| | Total | Shortest | Longest |
|----------------------|---------|----------|---------|
| Enron Americas | 225.2 | Dec-01 | Dec-13 |
| Enron Broadband | 150.6 | Jun-02 | Nov-02 |
| Enron Europe | 347.2 | Jan-02 | Dec-32 |
| Enron Energy Service | 197.4 | Jun-02 | Dec-13 |
| Enron Global Finance | 517.0 | | May-02 |
| Enron Net Works | 200.0 | | Sep-01 |
| | 1,637.4 | Dec-01 | Dec-32 |

Prepays

| | Total | Earliest | Latest |
|---------------|---------|----------|--------|
| Crude Prepays | 2,116.2 | Dec-01 | Feb-07 |
| Gas Prepays | 1,822.4 | Dec-01 | Apr-11 |
| | 3,938.6 | Dec-01 | Apr-11 |

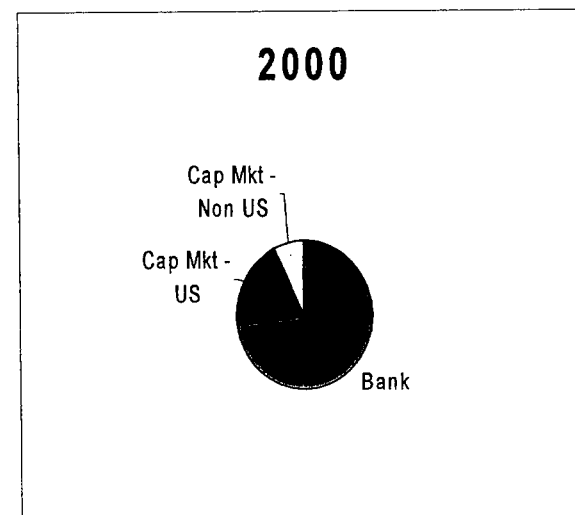
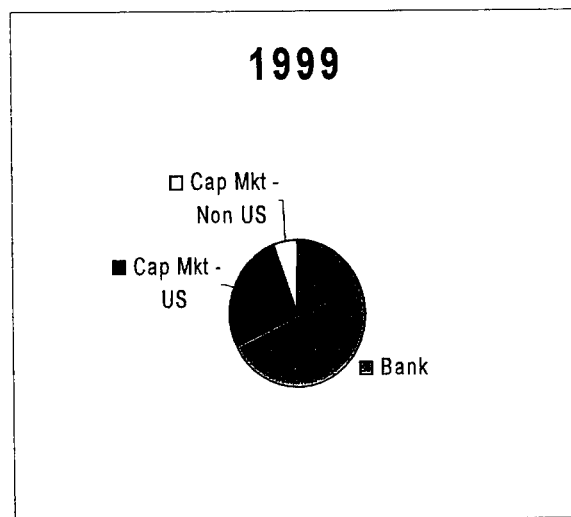
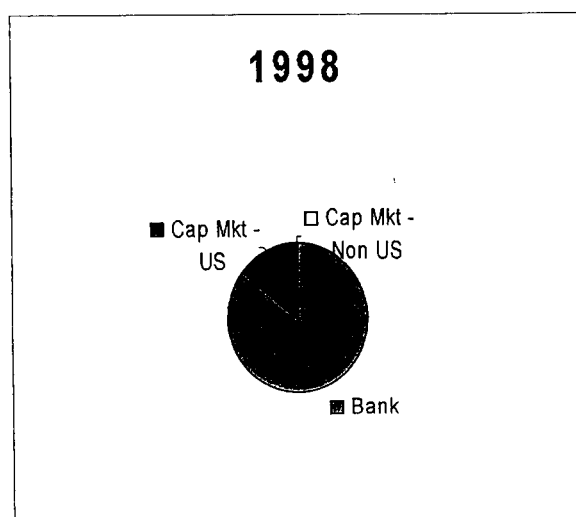
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Have made an attempt to
diversify funding sources

Funding Sources

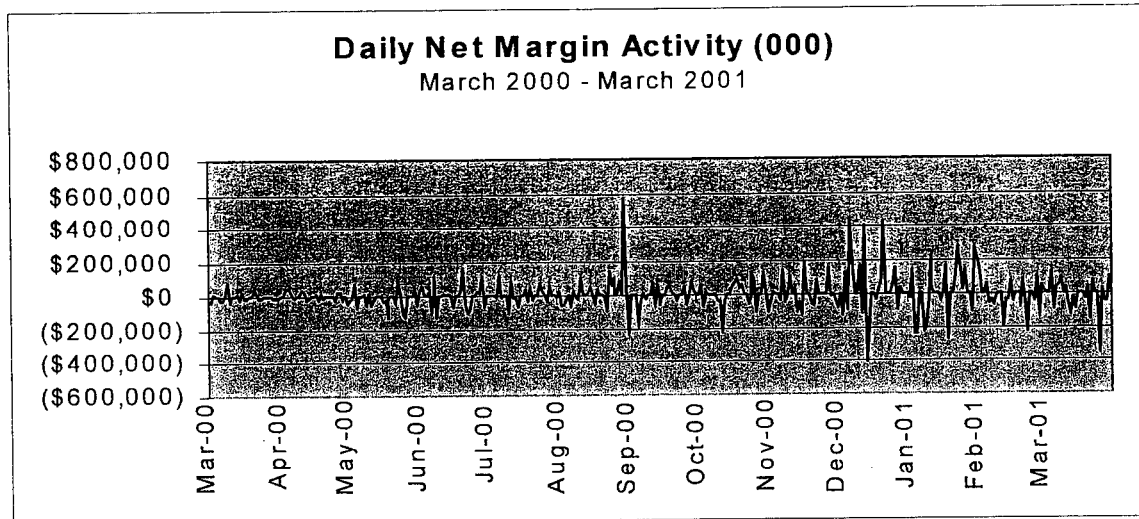
(\$MM)



| | 1998 | | 1999 | | 2000 | |
|------------------|--------------|------------|--------------|------------|--------------|------------|
| | Funds Raised | % of Total | Funds Raised | % of Total | Funds Raised | % of Total |
| Bank | 15,887 | 86% | 12,400 | 68% | 15,557 | 73% |
| Cap Mkt - US | 2,661 | 14% | 4,855 | 26% | 4,156 | 20% |
| Cap Mkt - Non US | - | 0% | 1,037 | 6% | 1,569 | 7% |
| Total | \$ 18,548 | 100% | \$ 18,292 | 100% | \$ 21,282 | 100% |

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Liquidity – Margin Activity



Margin Activity Statistics (\$000)

| | <i>Net Margin</i> | | |
|--------------|---------------------|------------------|------------------|
| | <i>Activity for</i> | <i>Maximum</i> | <i>Minimum</i> |
| | <i>Month</i> | <i>Daily Net</i> | <i>Daily Net</i> |
| April-00 | 82,512 | 51,596 | (30,384) |
| May-00 | (659,172) | 76,863 | (137,606) |
| June-00 | 4,227 | 165,527 | (129,599) |
| July-00 | 129,450 | 119,191 | (104,974) |
| August-00 | 814,103 | 576,012 | (96,635) |
| September-00 | (389,317) | 77,234 | (237,176) |
| October-00 | 130,520 | 130,780 | (225,314) |
| November-00 | (10,487) | 186,115 | (138,954) |
| December-00 | 855,778 | 431,775 | (403,472) |
| January-01 | 370,465 | 273,098 | (274,559) |
| February-01 | (399,766) | 218,525 | (226,934) |
| March-01 | (453,293) | 133,952 | (364,801) |

X

Workouts

How workouts might impact liquidity
Aggregate Exposure

- glisan {
- **Dabhol** \$480 MM
 - **Cuiaba** —
 - **Azurix** —
 - **Trakya** Multi lateral
 - **Other**

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X

Agenda Item 2b

EC004403763



Enron Corp.

Deputy Treasurer Nomination Discussion

EC004403764

2B - 1

EC004403765

Agenda Item 3



Enron Corp.

Treasurer Report

April 30, 2001

EC004403766

Enron Corp.

Liquidity Report

As of April 18, 2001
(\$000)

| | Overnight | 2-30 Days | 31-60 Days | 61-90 Days | 91+ Days | Total |
|---|------------------|------------------|----------------|------------|------------------|------------------|
| Commercial Paper & Uncommitted Lines | 2,754,000 | | | | | 2,754,000 |
| Bank Facilities | | | | | | |
| BHF | 18,571 | | | | | 18,571 |
| Accounts Recievable | | 250,000 | | | | 250,000 |
| Whitewing | | 164,000 | | | | 164,000 |
| Shelf Registration - Debt | | 1,000,000 | | | | 1,000,000 |
| Shelf Registration - Equity ¹ | | 930,000 | | | | 930,000 |
| Merchant Portfolio Monetizations (as of:04/17/01) | | | | | | |
| Public Equity | | 617,349 | | | | 617,349 |
| Debt Instruments | | | 450,425 | | | 450,425 |
| Private Equity | | | | | 1,306,183 | 1,306,183 |
| Total | 2,772,571 | 2,961,349 | 450,425 | - | 1,306,183 | 7,490,528 |

¹ Reflects 15mm shares at \$62 per share.

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glisan

Enron Corp.

Active Letters of Credit by Category

(\$000)

| | <u>04/17/01</u> | <u>12/31/00</u> | <u>12/31/99</u> |
|-------------------|----------------------------|----------------------------|--------------------------|
| Bids | \$ 7,332 | \$ 6,321 | \$ 5,968 |
| Debt | 40,241 | 24,241 | 52,946 |
| EOTT | 123,265 | 102,089 | 150,310 |
| Leases | 12,672 | 12,750 | 15,604 |
| Other | 59,330 | 280,179 | 80,071 |
| Other Third-Party | 5,193 | 6,605 | 24,078 |
| Performance | 441,611 | 425,210 | 522,006 |
| Trade | 875,244 | 634,300 | 76,269 |
| Grand Total | <u><u>\$ 1,564,888</u></u> | <u><u>\$ 1,491,695</u></u> | <u><u>\$ 927,252</u></u> |

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Enron Corp.

Guarantee Portfolio

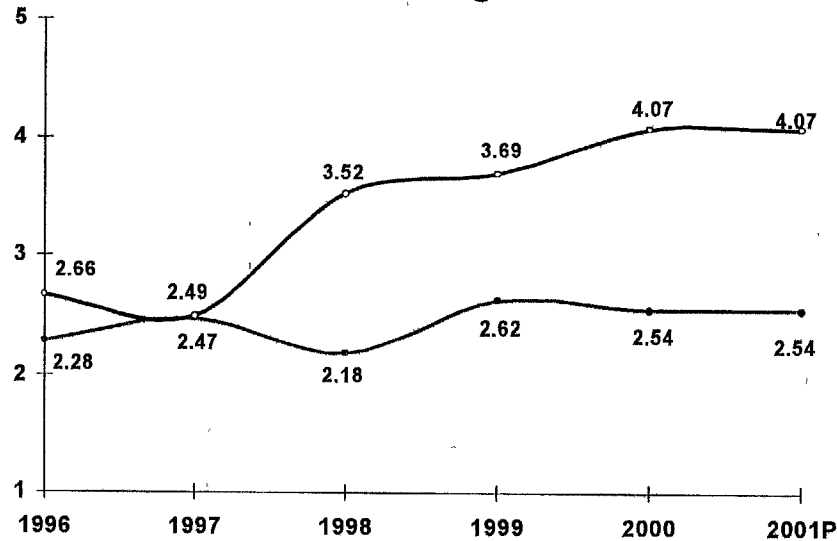
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| | <u>03/30/01</u> | <u>12/31/00</u> | <u>12/31/99</u> |
|--|---------------------|---------------------|---------------------|
| Trade (Payment & Performance) | \$21,949,022 | \$21,197,904 | \$17,316,817 |
| EOTT Trade | 544,744 | 544,744 | 440,375 |
| Swap Agreements (Master & Individual) | 11,471,408 | 10,878,431 | 7,148,443 |
| Projects (Non-Debt) | 5,724,732 | 4,632,739 | 4,756,470 |
| Debt | | | |
| Consolidated Subsidiaries | 3,001,223 | 3,084,698 | 2,155,303 |
| Unconsolidated Subsidiaries | 337,746 | 337,746 | 337,746 |
| Grand Total | <u>\$43,028,875</u> | <u>\$40,676,262</u> | <u>\$32,155,154</u> |

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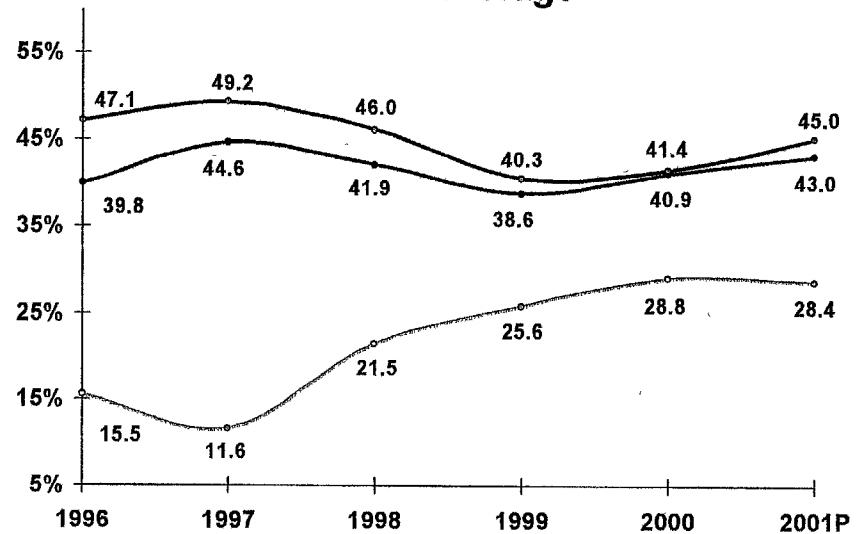
Targeted Key Financial Ratios

Coverage



○ Funds Flow Interest Coverage
● Interest Coverage

Leverage



○ Total Obligations/Total Capital
● Debt/ B/S Capital
● FF0/Total Obligation

Original plan assumed a large % of the int'l assets
would be sold early in the year
Handy in re affirming rating 3-5 however - 2nd plan also 1 to 3

EC004403770

9

Rating Summary

| Rating Agency | Long Term | Commercial Paper | Outlook |
|------------------|-----------|------------------|---------|
| Fitch IBCA | BBB+ | F-2 | Stable |
| Moody's | Baa1 | P2 | Stable |
| R and I(Japan) | A- | n/a | Stable |
| Standard & Poors | BBB+ | A2 | Stable |

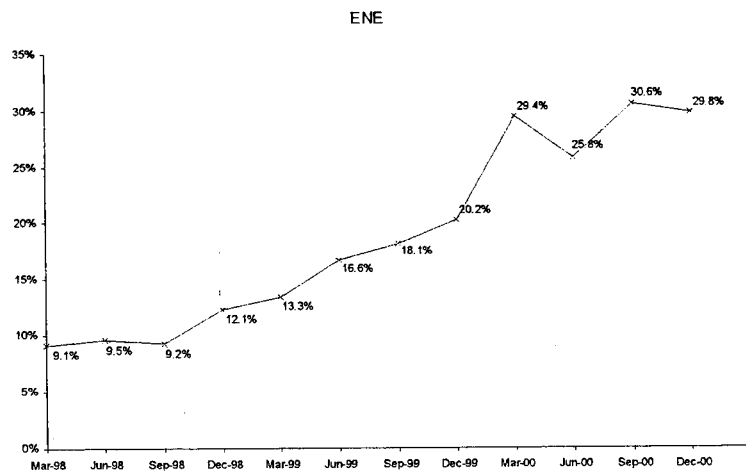
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9

Cost of Capital

2 different methodologies

5 year annualized return



WACC using rolling 5 yr equity returns.

Equity Analyst Forecasted Stock Prices

| Firm | Recommendation | 12 Month |
|-----------------------|----------------|--------------|
| | | Target Price |
| A.G. Edwards | Hold | 75 |
| Bear Stearns | Attractive | 98 |
| Bernstein | Hold | |
| Bank of America | Strong Buy | 105 |
| CIBC Oppenheimer | Buy | 95 |
| CSFB | Strong Buy | 110 |
| Dain Rauscher Wessels | Strong Buy | 105 |
| First Albany | Strong Buy | 100 |
| Goldman Sachs | Buy | 110 |
| Howard Weil | Hold | |
| J.P. Morgan | Buy | 120 |
| Lehman Bros. | Strong Buy | 100 |
| Merrill Lynch | Buy | 99 |
| Morgan Stanley | Outperform | 100 |
| Prudential | Strong Buy | 89 |
| Salomon Smith Barney | Buy | 100 |
| Simmons | Buy | 100 |
| UBS Warburg | Strong Buy | 102 |
| Average | | 100.5 |

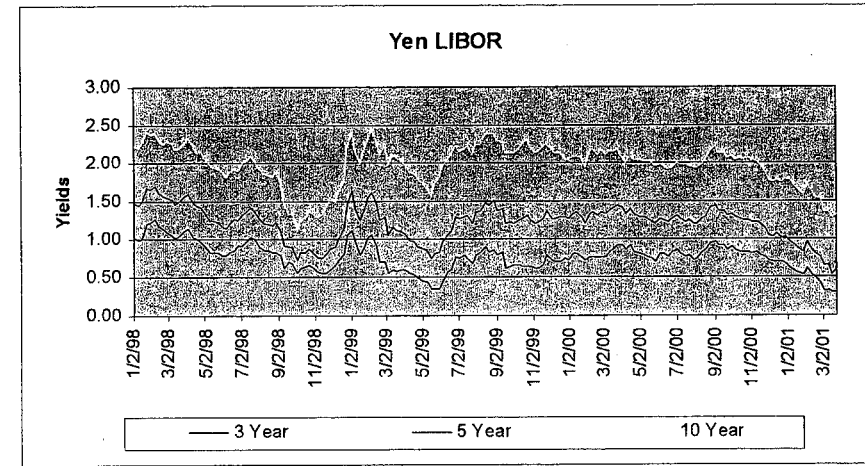
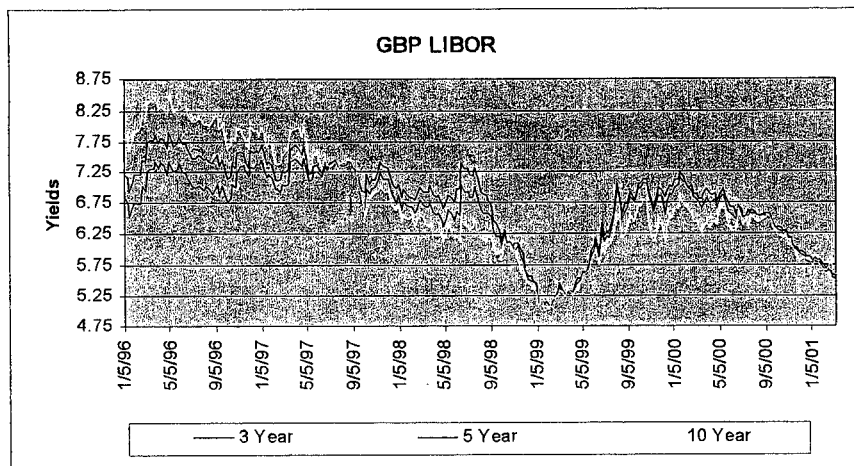
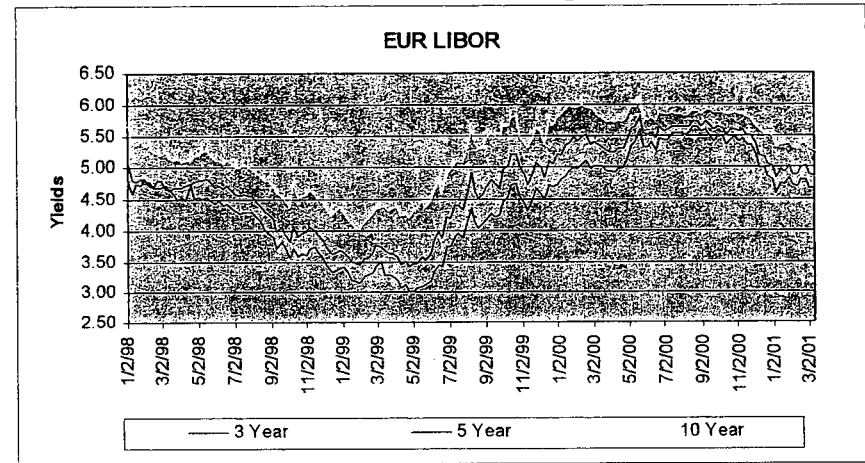
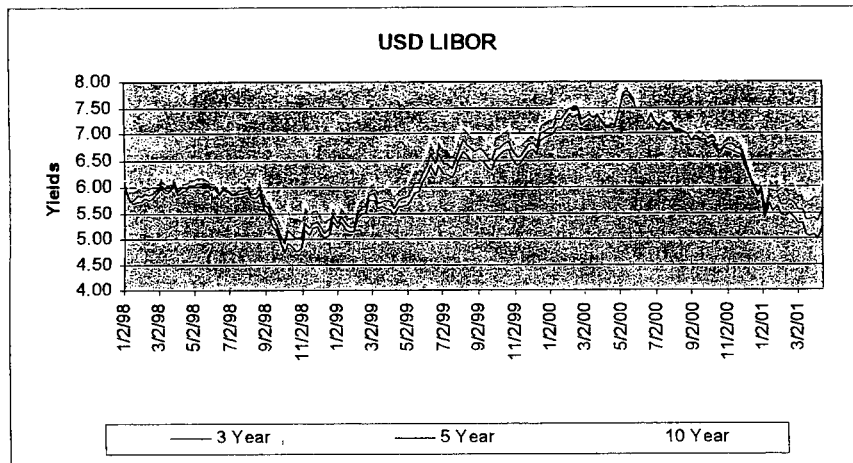
| Enron Stock Price | Date | Closing Price | Implied Equity Return |
|-------------------|------------|---------------|-----------------------|
| | 12/29/2000 | 83.125 | 20.9% |
| | 1/31/2001 | 80.000 | 25.6% |
| | 2/28/2001 | 68.500 | 46.7% |
| | 3/30/2001 | 58.100 | 73.0% |

| Market Cost of Capital | Cost | % of Capital Structure | |
|------------------------|-------|------------------------|-------|
| After Tax Debt | 4.8% | 42% | 2.0% |
| Equity | 29.8% | 58% | 17.3% |
| WACC | | | 19.3% |

| Cost of Capital | Cost | % of Capital Structure | |
|-----------------|-------|------------------------|-------|
| After Tax Debt | 4.8% | 42% | 2.0% |
| Equity | 20.9% | 58% | 12.1% |
| WACC | | | 14.1% |

Market Structure

Benchmark Yields Local Currency

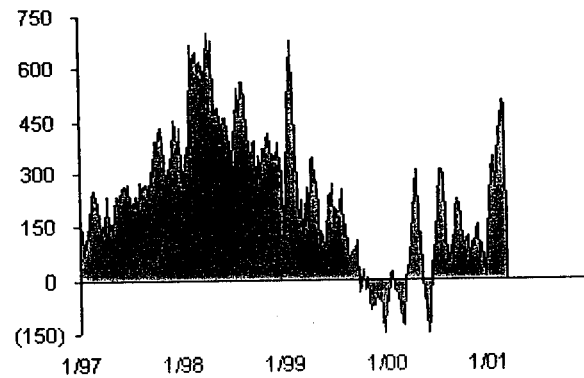


lots of money has moved out
of the equity markets into
the debt markets

Market Health

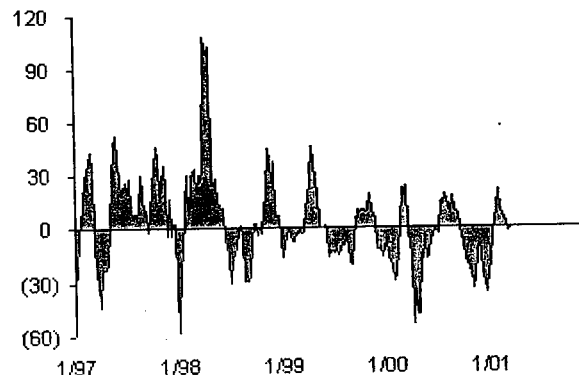
Mutual Funds Flows

Figure 1. Investment Grade Corporate Debt
(4-wk. avg., \$ in millions, 1/1/97-3/7/01)



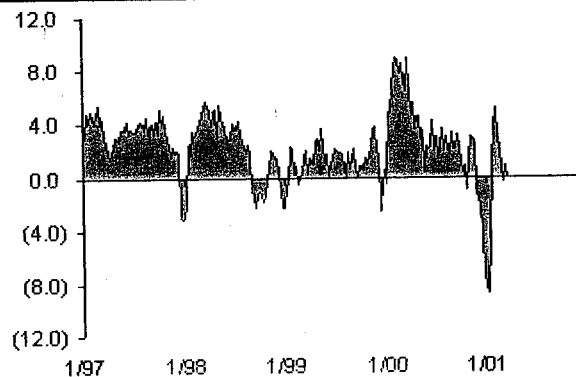
Source: AMG Data Services

Figure 2. Emerging Markets Debt
(4-wk. avg., \$ in millions, 1/1/97-3/7/01)



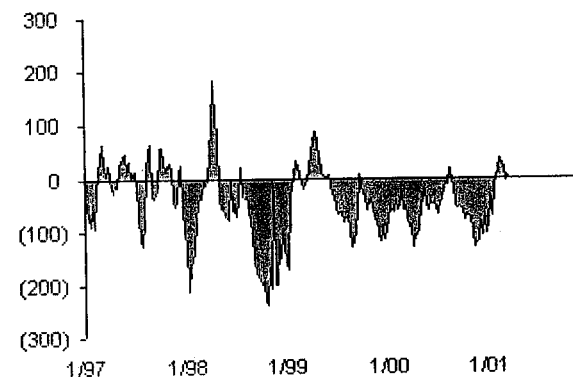
Source: AMG Data Services

Figure 3. All Equity
(4-wk. avg., \$ in millions, 1/1/97-3/7/01)



Source: AMG Data Services

Figure 4. International and Global Debt
(4-wk. avg., \$ in millions, 1/1/97-3/7/01)



Source: AMG Data Services

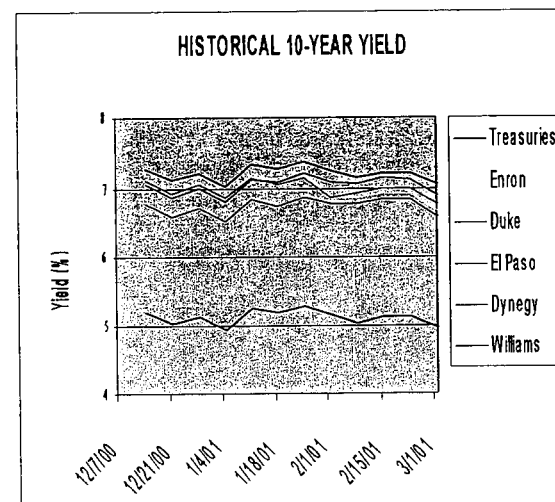
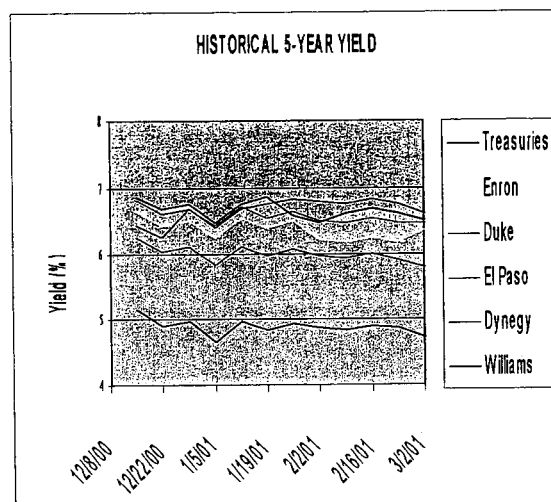
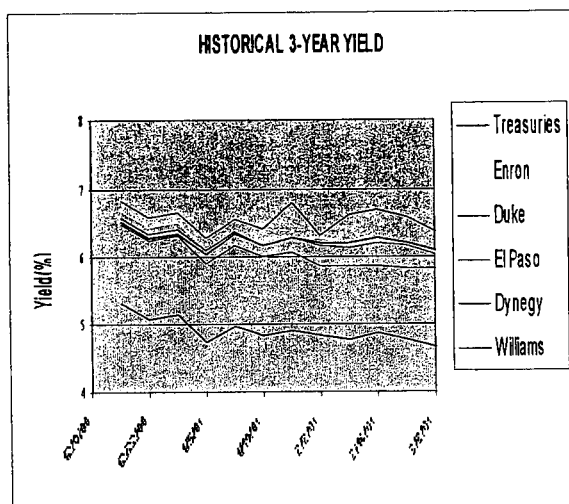
Market Indicators

| | YTD Max | YTD Min | YTD Change | 12/31/2000 | 18-Apr | 11-Apr | 4-Apr | 28-Mar |
|-------------------------|---------|---------|------------|------------|--------|--------|-------|--------|
| Interest Rates | | | | | | | | |
| 3 yr Treasury | 5.14% | 4.28% | -0.66% | 5.13% | 4.47% | 4.49% | 4.29% | 4.49% |
| 5 yr Treasury | 5.01% | 4.45% | -0.27% | 4.98% | 4.71% | 4.69% | 4.50% | 4.64% |
| 10 Yr Treasury | 5.31% | 4.76% | 0.03% | 5.11% | 5.14% | 5.12% | 4.91% | 4.98% |
| Libor (3M) | 6.40% | 4.74% | -1.57% | 6.40% | 4.83% | 4.76% | 4.81% | 4.90% |
| Equities | | | | | | | | |
| Dow Industrials | 10,984 | 9,389 | (171) | 10,787 | 10,616 | 10,013 | 9,515 | 9,785 |
| S&P Index | 1,374 | 1,103 | (82) | 1,320 | 1,238 | 1,166 | 1,103 | 1,153 |
| NASDAQ | 2,859 | 1,639 | (391) | 2,471 | 2,079 | 1,899 | 1,639 | 1,854 |
| Commodities | | | | | | | | |
| Natural Gas (Henry Hub) | 10.50 | 4.92 | (5.34) | 10.50 | 5.16 | 5.46 | 5.21 | 5.64 |
| Crude (NYMEX) | 32.19 | 25.59 | 1.15 | 26.80 | 27.95 | 28.18 | 27.12 | 26.31 |

EC004403775

Market Structure

Sector Spreads



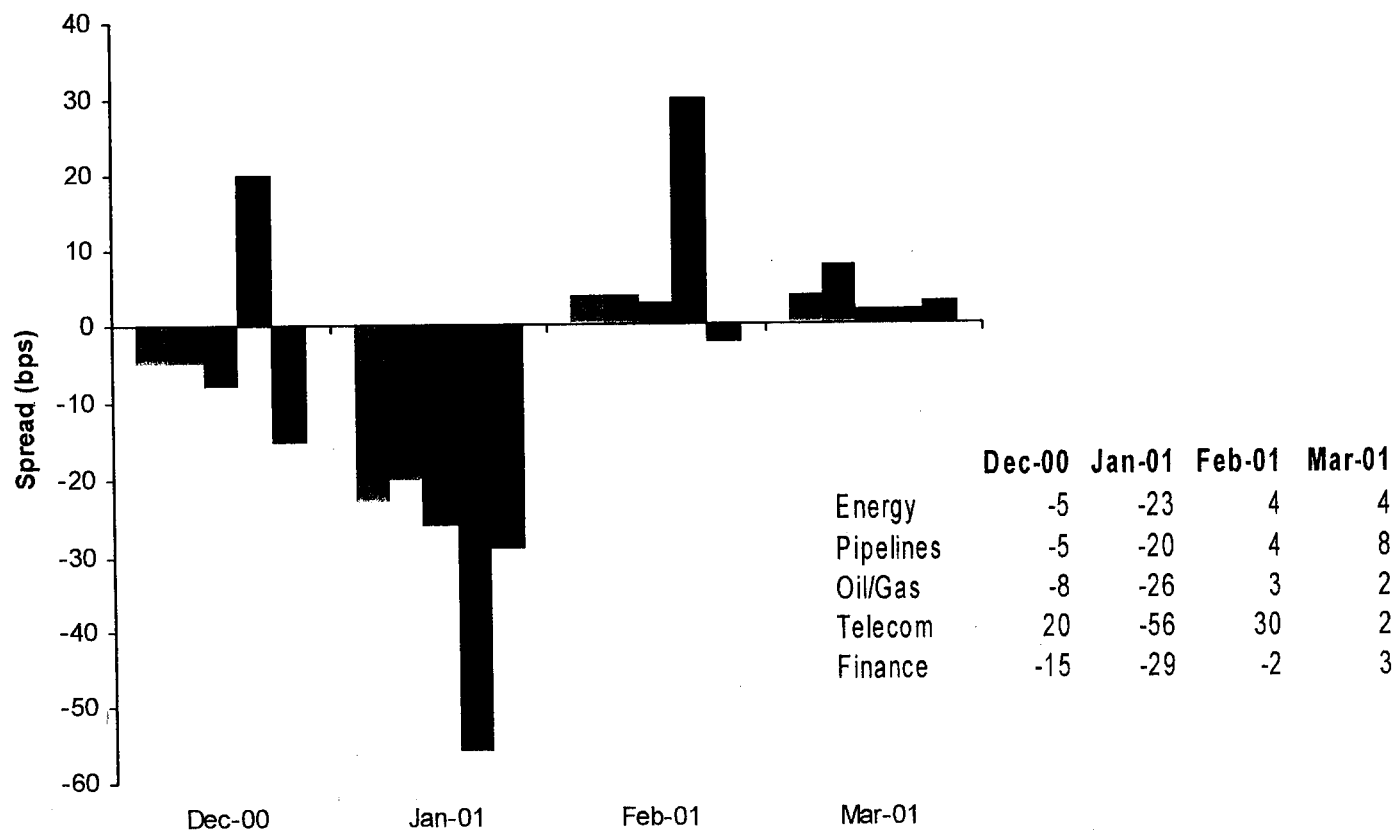
| Historical 3-Year Treasury Spread (bps) | | | | |
|---|-----------|-----------|----------|------------|
| | 3/30/2001 | 3/23/2001 | 3/2/2001 | 12/31/2000 |
| Enron (BBB+/Baa1) | 139 | 141 | 140 | 138 |
| Duke Energy (AA-/Aa3) | 144 | 144 | 117 | 118 |
| Dynegy (Illnova) (BBB-/Baa3) | 152 | 174 | 173 | 154 |
| El Paso (Coastal) (BBB-/Baa2) | 160 | 144 | 138 | 128 |
| Williams (BBB-/Baa2) | 160 | 154 | 143 | 122 |

| Historical 5-Year Treasury Spread (bps) | | | | |
|---|-----------|-----------|----------|------------|
| | 3/30/2001 | 3/23/2001 | 3/2/2001 | 12/31/2000 |
| Enron (BBB+/Baa1) | 161 | 162 | 165 | 154 |
| Duke Capital (A+/A3) | 104 | 106 | 108 | 113 |
| Dynegy (BBB+/Baa2) | 186 | 187 | 190 | 169 |
| El Paso (Coastal) (BBB-/Baa2) | 172 | 174 | 173 | 171 |
| Williams (BBB-/Baa2) | 176 | 177 | 178 | 176 |

| Historical 10-Year Treasury Spread (bps) | | | | |
|--|-----------|-----------|----------|------------|
| | 3/30/2001 | 3/23/2001 | 3/2/2001 | 12/31/2000 |
| Enron (BBB+/Baa1) | 178 | 193 | 173 | 187 |
| Duke Energy (A+/A1) | 168 | 168 | 163 | 158 |
| Dynegy (IL Power) (BBB+/Baa1) | 193 | 193 | 193 | 186 |
| El Paso (Coastal) (BBB-/Baa2) | 186 | 178 | 183 | 193 |
| Williams (BBB-/Baa2) | 198 | 193 | 210 | 210 |

Compared to peer group

Monthly change in Sector Spreads



■ Energy ■ Pipelines ■ Oil/Gas ■ Telecom ■ Finance

Implied Spread Moves for the Corporate Sector of the Salomon Smith Barney BIG Index

Estimated New Issue Cost

Enron Estimated New Issue Cost

| | 3y | 5y | 10y |
|-----------|-------|-------|-------|
| USD fixed | 5.90% | 6.51% | 7.09% |

USD Equivalent libor Funding Spreads

| | | | |
|----------|-------|-------|-------|
| USD | 0.85% | 1.04% | 1.08% |
| Sterling | 0.87% | 1.04% | 1.29% |
| Euro | 0.85% | 0.96% | 1.16% |
| Yen | 1.00% | 1.25% | 1.35% |

Enron Activity 2001

Completed

Convertible Note, \$1.25 billion face, Maturing 2/8/2021, Cost 2.125%
TGS, \$150 MM face, 5 year, libor + 298

Deal Pipeline

Enron Credit Linked Note, \$750-\$1,000 MM face, Expected in 2Q
Marlin, \$800 MM face, Expected in 3Q
Tender and Exchange, \$750-1,000 face, Expected in 2Q

Other Notable Issuances

Daimler Chrysler issued \$3.5 billion

- **3 currencies: USD, GBP, Euro**
- **2, 3, 5, 10, and 30 year tranches**
- **Spreads ranging from 125 to 304**

France Telecom issued approximately \$16 billion

- **3 currencies: USD, GBP, Euro**
- **Maturities ranging from 2 to 30 years**
- **Spreads ranging from 125 to 308**

Williams Communications issued \$1.4 billion

- **Osprey like structure**
- **Matures 2/15/04**
- **Paid 398 bps with a coupon of 8.25%**

Calpine issued \$1.15 billion

- **Senior Notes**
- **Maturity 2/15/11**
- **Paid 345 bps with a coupon of 8.50%**

Funding Sources and Fees (MM)

2000

| | Funds Raised | Fees Paid | % of Total Fees |
|---------|--------------|-----------|-----------------|
| Bank | 15,556.8 | 60.2 | 45% |
| Cap Mkt | 5,725.0 | 36.6 | 28% |
| Equity | 504.0 | 33.1 | 25% |
| M&A | - | 2.6 | 2% |
| Total | \$ 21,785.8 | \$ 132.5 | 100% |

Top Five Fee Earners

| | |
|-----------|---------|
| CSFB/DLJ | 47.2 |
| Chase | 12.6 |
| Citigroup | 12.1 |
| CIBC | 8.2 |
| West LB | 6.9 |
| | \$ 87.0 |

Banks merged during the year

1999

| Fee Type | Funds Raised | Fees Paid | % of Total Fees |
|----------|--------------|-----------|-----------------|
| Bank | 12,400.0 | 105.5 | 40% |
| Cap Mkt | 5,892.0 | 53.7 | 21% |
| Equity | 2,400.0 | 99.6 | 38% |
| M&A | - | 3.3 | 1% |
| Total | \$ 20,692.0 | \$ 262.1 | 100% |

| | |
|-----------------|----------|
| Merrill Lynch | 26.8 |
| CSFB | 23.7 |
| Citigroup | 21.0 |
| Chase | 19.2 |
| Bank of America | 18.3 |
| | \$ 109.0 |

1998

| Fee Type | Funds Raised | Fees Paid | % of Total Fees |
|----------|--------------|-----------|-----------------|
| Bank | 15,887.0 | 90.9 | 65% |
| Cap Mkt | 2,661.0 | 21.5 | 15% |
| Equity | 836.0 | 19.7 | 14% |
| M&A | - | 7.6 | 6% |
| Total | \$ 19,384.0 | \$ 139.7 | 100% |

| | |
|---------------|---------|
| DLJ | 19.4 |
| Bankers Trust | 15.8 |
| Citigroup | 14.4 |
| Chase | 12.8 |
| CSFB | 11.5 |
| | \$ 73.9 |

EC004403780

Agenda Item 4

EC004403781



Enron Corp.

Chief Risk Officer Report April 30, 2001

EC004403782

Enron's Assets

as of December 31, 2000

TOTAL BALANCE SHEET ASSETS

\$65.5 Bn

Trade Credit

\$22.7 Bn

- * price risk management assets, net of credit reserves
- * accounts receivable

Investments

\$8.6 Bn

- Wholesale Services investments (North America, Global Markets, Industrial Markets, Net Works, Europe and Global Assets)
- EBS venture capital investments

All Other Assets

\$34.2 Bn

- Wholesale – other assets and receivables
- Transportation Services – pipelines & other
- EBS – fiber optic network & other
- EBS – retail assets
- Portland General Electric – generation & transmission
- Corporate – working capital, goodwill & PP&E

Part 1 • Trade Credit Update

Part 2 • Investment Portfolio

Part 3 • Enron Energy Services

Part 4 • Market Risk Update

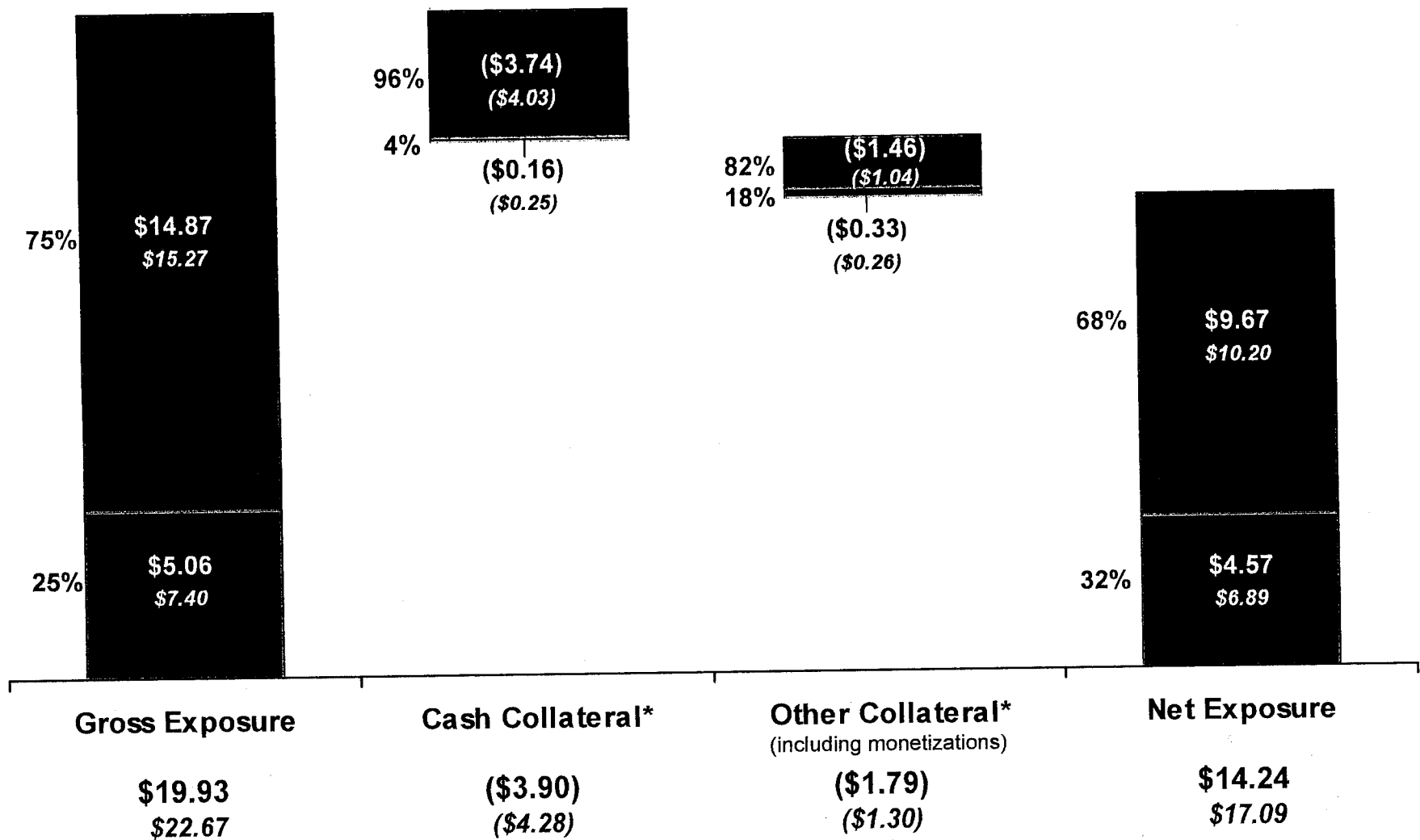
Buy

Trade Credit Update

Trade Credit Portfolio

as of March 31, 2001
In \$Bn's

■ Investment Grade
■ Non-Investment Grade

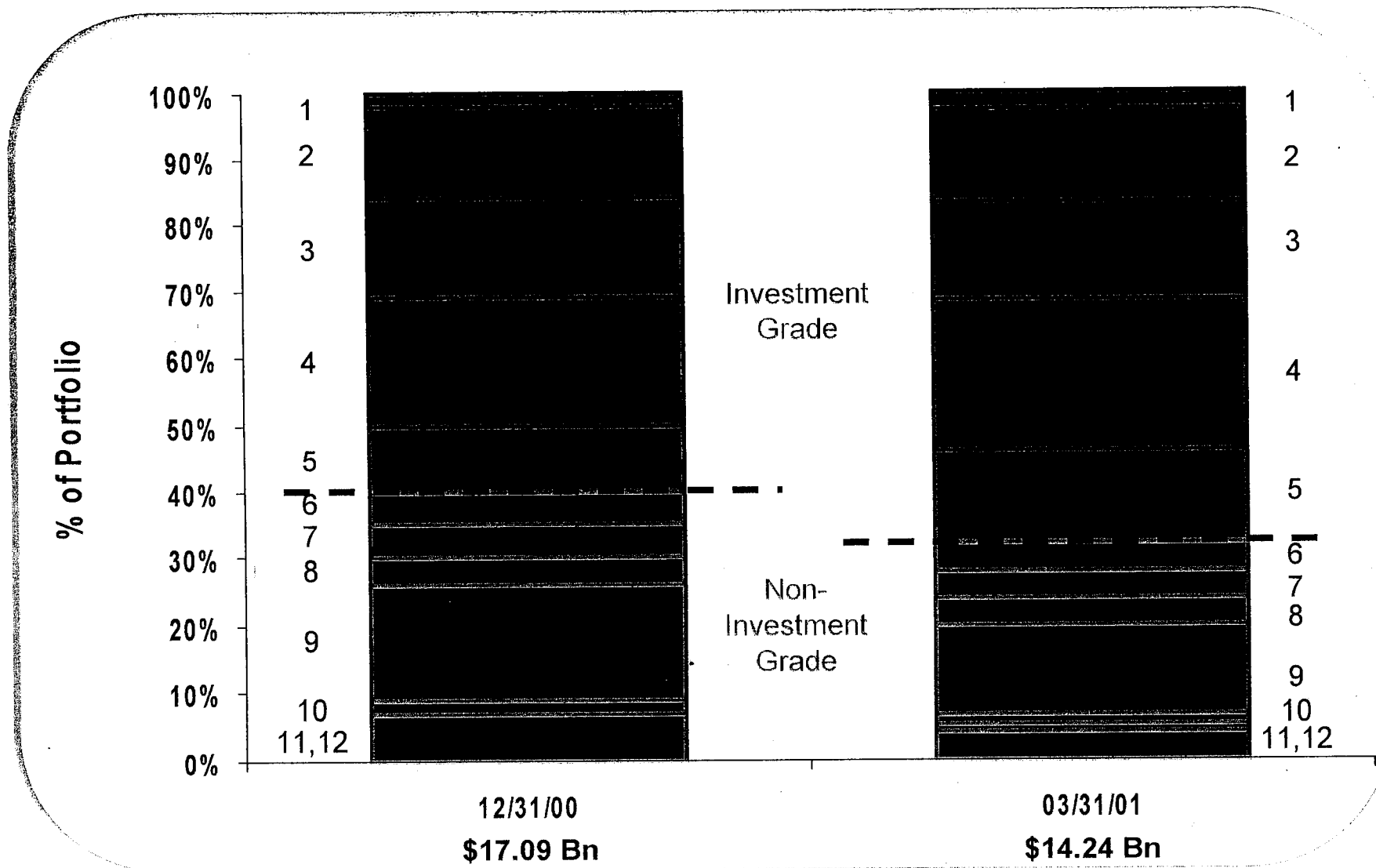


* Only includes collateral utilized.

Numbers in italics represent comparable amounts at December 31, 2000.

Buy

Net Credit Exposure by E-Rating

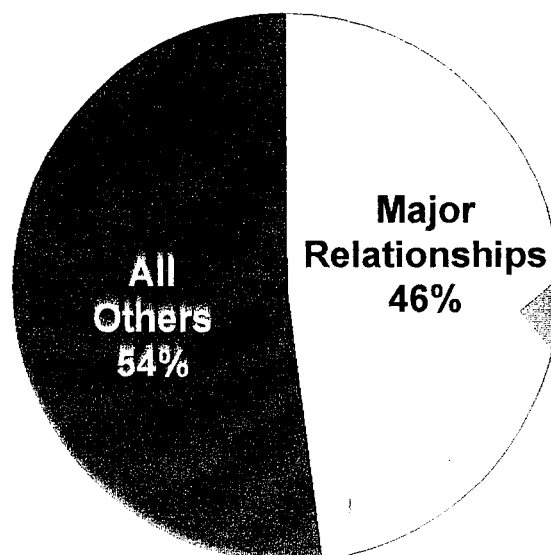


Major Relationships

as of March 31, 2001

Total Net Exposure \$14.24 Bn

Now a \$500 w/
collateral
set off



| Parent E-Rating | Relationship | Gross Exposure In \$MM's | Collateral In \$MM's | Net Exposure In \$MM's |
|----------------------------------|---|--------------------------------|-------------------------|------------------------------|
| 4 | TXU Corp. | 1,563 | (99) | 1,464 |
| 12 | PG&E Corp. | 964 | (130) | 834 |
| 2 | Bonneville Power Administration | 769 | - | 769 |
| 5 | Sithe/Independence Power Partners, L.P. | 661 | - | 661 |
| 4 | TransAlta Corporation | 527 | (5) | 522 |
| 4 | American Electric Power Company Inc. | 291 | - | 291 |
| 3 | Koch Petroleum Group, LP | 268 | - | 268 |
| 3 | Sempra Energy | 309 | (85) | 224 |
| 7 | Calpine Corporation | 274 | (75) | 199 |
| 3 | TransCanada Pipelines Ltd. | 189 | - | 189 |
| 4 | Petro-Canada | 175 | - | 175 |
| 11 | Edison International | 173 | - | 173 |
| 4 | El Paso Corporation | 157 | - | 157 |
| 4 | Reliant Energy Inc. | 712 | (588) | 124 |
| 5 | Avista Corporation | 121 | - | 121 |
| 5 | The Williams Companies, Inc. | 791 | (686) | 105 |
| 4 | The Southern Company Inc. | 475 | (379) | 96 |
| 4 | Nicor Inc. | 76 | - | 76 |
| 5 | Utilicorp United Inc. | 71 | (2) | 69 |
| 3 | Duke Energy Corporation | 1,332 | (1,297) | 35 |
| Major Relationships Total | | 9,898 | (3,346) | 6,552 |

Counterparties new to "Major Relationships" list

Non-Investment Grade Credit Exposures

Before set off

Done

Top 25 Net Credit Exposures for March 31, 2001

In \$MM's

| E-Rating | Counterparty Name (Legal Entity) | December 31, 2000 | March 31, 2001 |
|----------------------------|--|-------------------|----------------|
| 4 | TXU Europe Energy Trading Ltd. | 1,238 | 1,435 |
| 2 | Bonneville Power Administration | 606 | 769 |
| 5 | Sithe/Independence Power Partners, L.P. | 632 | 661 |
| 3 | TransAlta Utilities Corporation | 836 | 521 |
| 12 | Pacific Gas & Electric Company | 808 | 474 |
| 2 | Koch Petroleum Group, L.P. | N/A | 255 |
| 7 | Calpine Energy Services, L.P. | N/A | 195 |
| 3 | PG&E Gas Transmission, Northwest Corporation | N/A | 166 |
| 12 | Southern California Edison Company | 320 | 156 |
| 5 | PG&E Energy Trading-Gas Corporation | N/A | 155 |
| 4 | Petro-Canada Oil and Gas | N/A | 151 |
| 3 | AEP Energy Services, Inc. | 123 | 151 |
| 4 | Canadian Natural Resources | 160 | 132 |
| 4 | American Electric Power Service Corporation | 137 | 131 |
| 5 | Avista Energy, Inc. | 181 | 118 |
| 3 | Axia Energy, LP | N/A | 107 |
| 2 | Florida Power & Light Company | 134 | 106 |
| 5 | Williams Energy Marketing & Trading Company | N/A | 105 |
| 3 | TransCanada Energy Ltd. | N/A | 103 |
| 1 | Coral Energy Holding, L.P. | N/A | 96 |
| 4 | Coastal States Trading Inc. | N/A | 96 |
| 2 | Southern California Gas Company | N/A | 89 |
| 5 | PPL Montana, LLC | N/A | 78 |
| 6 | Sempra Energy Trading Corp. | N/A | 76 |
| 5 | Marathon Ashland Petroleum, LLC | N/A | 73 |
| Top 25 Total | | | 6,399 |
| Other Net Credit Exposures | | | 7,843 |
| Total Net Credit Exposure | | | 14,242 |

Counterparties new to "Top 25" list

Non-Investment Grade Credit Exposures

Collateral*

as of March 31, 2001
In \$MM's

| Counterparty | Amount |
|---|----------------|
| CASH POSITIONS | |
| The Chase Manhattan Bank | 1,234 |
| Duke Energy Trading and Marketing, L.L.C. | 731 |
| Williams Energy Marketing & Trading Company | 686 |
| Reliant Energy Services, Inc. | 201 |
| Mirant Americas Energy Marketing, L.P. | 178 |
| J. Aron & Company | 174 |
| BP Amoco Corporation | 131 |
| PG&E Energy Trading - Power, L.P. | 130 |
| Sempra Energy Trading Corp. | 75 |
| Credit Suisse First Boston International | 66 |
| Kinder Morgan, Inc. | 57 |
| Cargill, Incorporated | 49 |
| Bank of America, National Association | 45 |
| Bankers Trust Company | 31 |
| CMS Marketing, Services and Trading Company | 22 |
| Other Cash - Incoming | 87 |
| Other Cash - Outgoing | (54) |
| Morgan Stanley Capital Group Inc. | (21) |
| Hess Energy Trading Company LLC | (26) |
| General Re Financial Products Corporation | (26) |
| Aquila Risk Management Corporation | (48) |
| Citibank, N.A. | (49) |
| Merrill Lynch Capital Services, Inc. | (82) |
| Williams Energy Marketing & Trading Company | (93) |
| NYMEX | (96) |
| Mirant Americas Energy Marketing, L.P. | (116) |
| El Paso Merchant Energy, L.P. | (169) |
| Duke Energy Trading and Marketing, L.L.C. | (185) |
| Powerex Corp. | (340) |
| Mahonia Ltd | (872) |
| Net Incoming Cash | 1,720 |
| Total Incoming Cash | 3,897 |
| Total Outgoing Cash | (2,177) |

| Counterparty | Amount |
|---|--------------|
| INCOMING LETTERS OF CREDIT | |
| Duke Energy Trading and Marketing, L.L.C. | 577 |
| Reliant Energy Services, Inc. | 361 |
| Mirant Americas Energy Marketing, L.P. | 201 |
| Allegheny Energy Supply Company, LLC | 184 |
| Morgan Stanley Capital Group Inc. | 144 |
| TXU Energy Trading Company | 99 |
| Calpine Energy Services, L.P. | 75 |
| Reliant Energy Services Canada Ltd. | 62 |
| Mieco Inc. | 28 |
| Woodward Marketing, L.L.C. | 23 |
| Other | 299 |
| Total Incoming Letters of Credit | 2,053 |

| | |
|---|--------------|
| OUTGOING LETTERS OF CREDIT | |
| Powerex Corp. | (200) |
| Duke Energy Marketing Limited Partnership | (113) |
| TransCanada Energy Financial Products Limited | (109) |
| California Power Exchange Corporation | (107) |
| Pacific Gas & Electric Company | (100) |
| Southern California Edison Company | (34) |
| Louis Dreyfus Corporation | (26) |
| Mittwell Energy Resources Pty., Ltd. | (23) |
| Other | (28) |
| Total Outgoing Letters of Credit | (740) |

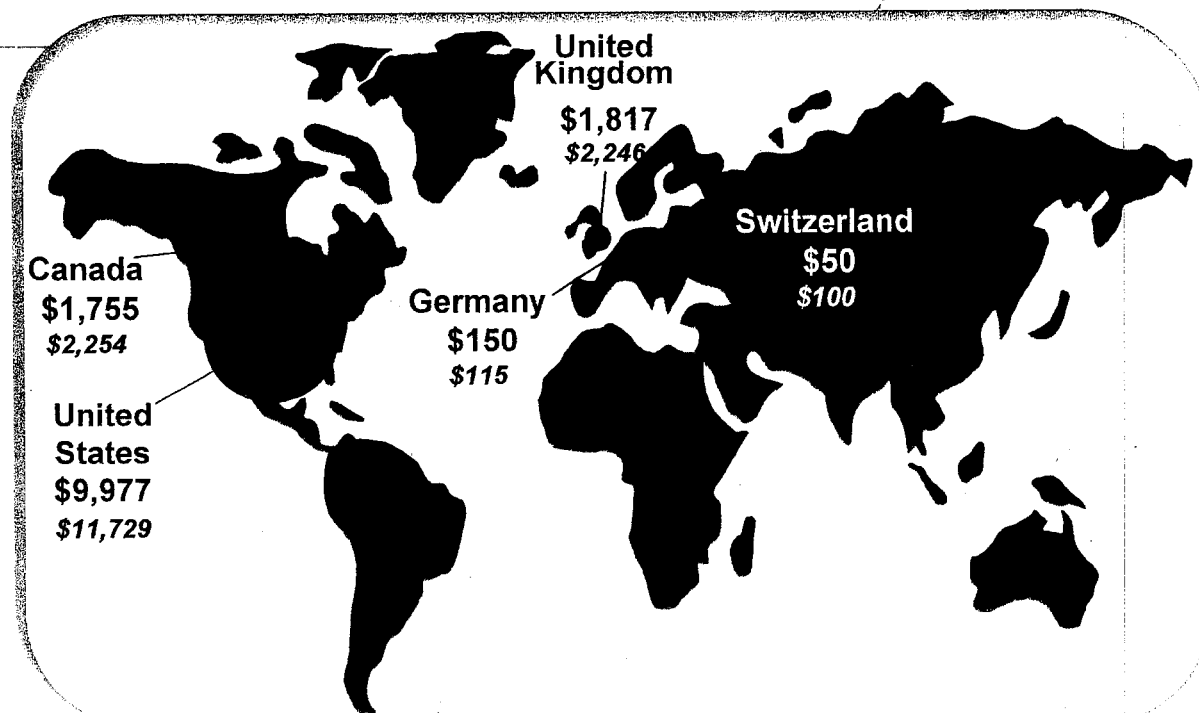
| | |
|------------------------------------|----------------|
| OUTGOING SURETY BONDS | |
| Mahonia Ltd. | (1,266) |
| ISO New England Inc. | (40) |
| Total Outgoing Surety Bonds | (1,306) |

* Includes all collateral, including collateral not utilized.

Top 5 Country Net Credit Exposures *

In \$MM's

| E-Rating | Country | December 31, 2000 | % of Total | March 31, 2001 | % of Total |
|----------------------------|----------------|-------------------|---------------|----------------|---------------|
| 1 | United States | 11,729 | 69% | 9,977 | 70% |
| 1 | United Kingdom | 2,246 | 13% | 1,817 | 13% |
| 1 | Canada | 2,254 | 13% | 1,755 | 12% |
| 1 | Germany | 115 | 1% | 150 | 1% |
| 1 | Switzerland | 100 | | 50 | |
| Top 5 Total | | 16,444 | | 13,749 | |
| Other Net Credit Exposures | | 644 | | 493 | |
| Total Net Credit Exposure | | 17,088 | | 14,242 | |



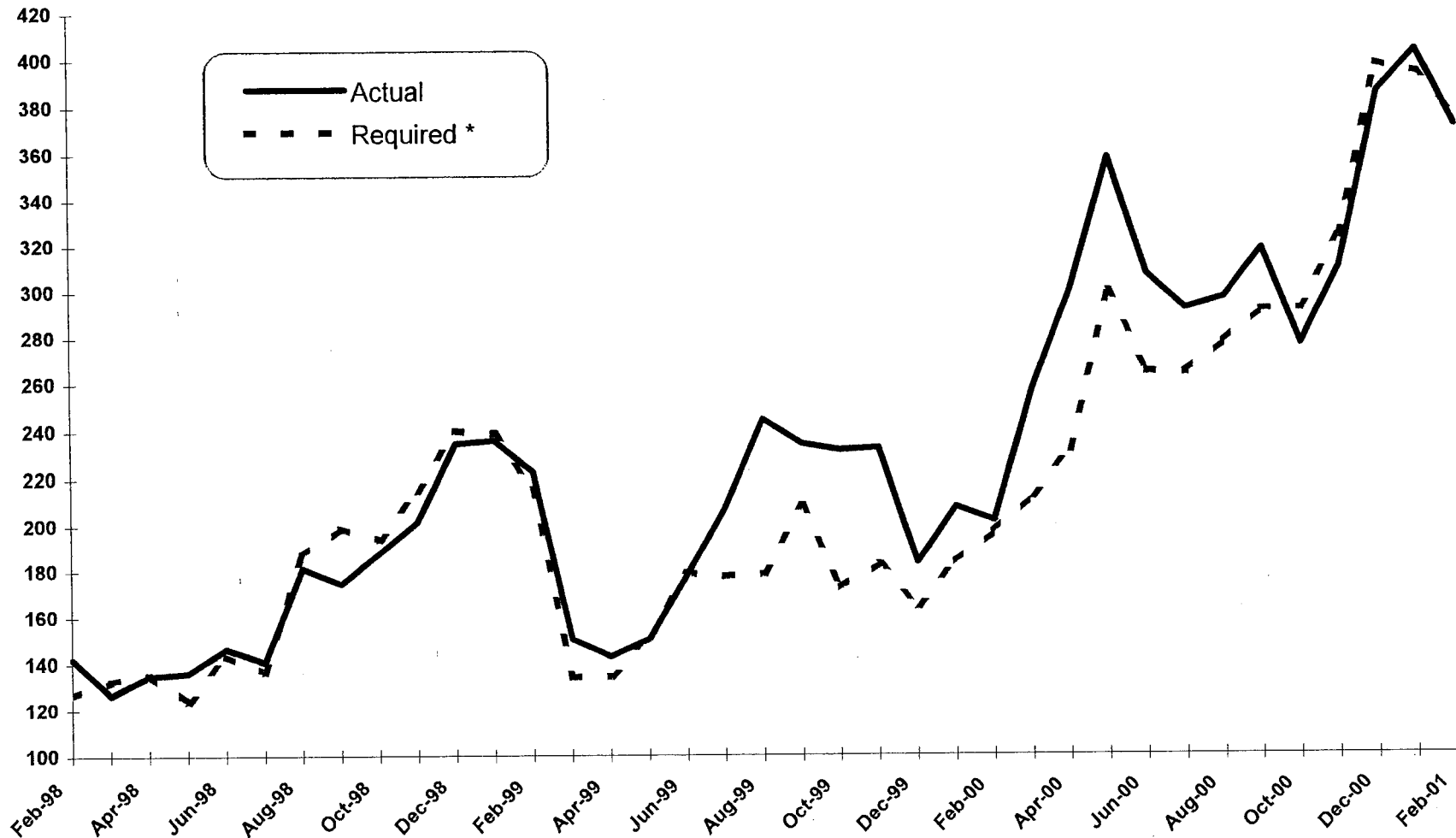
* Calculated based on country of incorporation.

Numbers in italics represent comparable amounts at December 31, 2000.

B

Credit Reserve Historical Comparison

In \$MM's



* Required Reserve: Amount of reserve required for existing portfolio after simulating defaults and assuming 50% recovery.

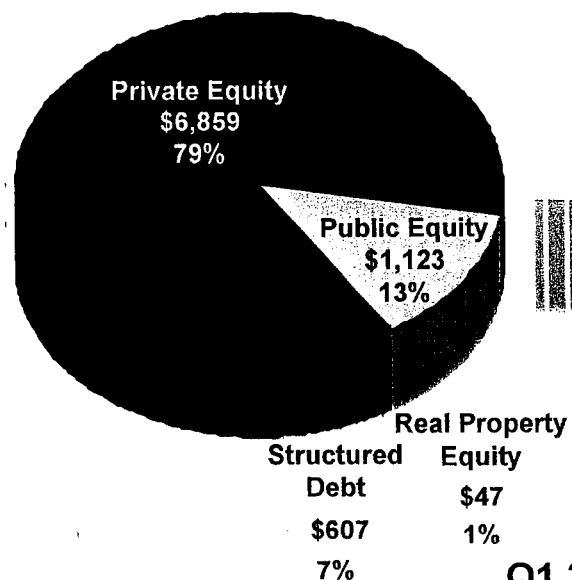


Investment Portfolio

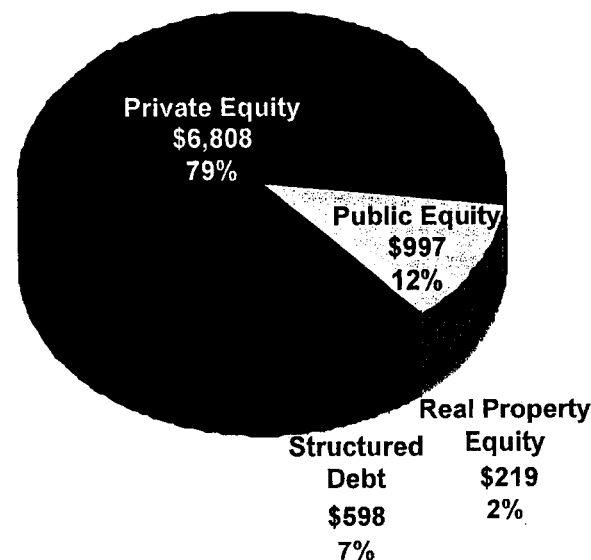
Investment Portfolio Summary

In \$MM's

12/31/00
Net Portfolio Carry Value \$8,636



3/31/01
Net Portfolio Carry Value \$8,622



Q1 2001 Activity

| Net Portfolio Carry Value 12/31/00 | Net Additions | Net Disposals | Syndications | Change in Valuation | Net Portfolio Carry Value 3/31/01 |
|--|------------------|------------------|--------------|------------------------|---|
| \$8,636 | \$610 | (\$466) | (\$10) | (\$148) | \$8,622 |

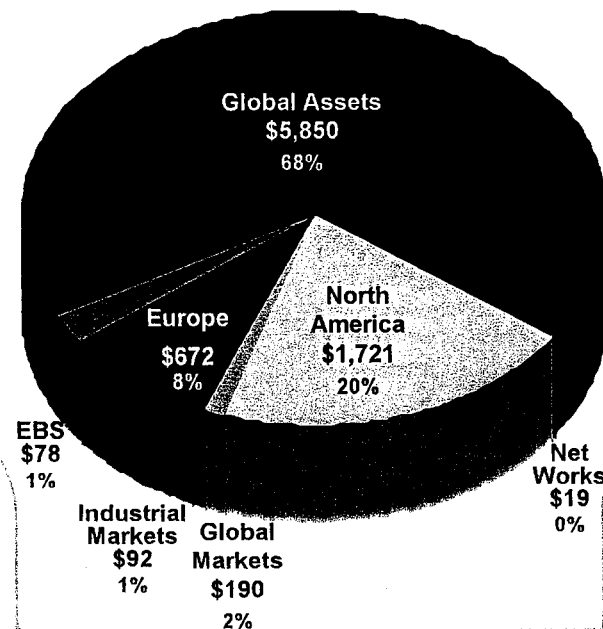
Summary of Investment Portfolio

as of March 31, 2001

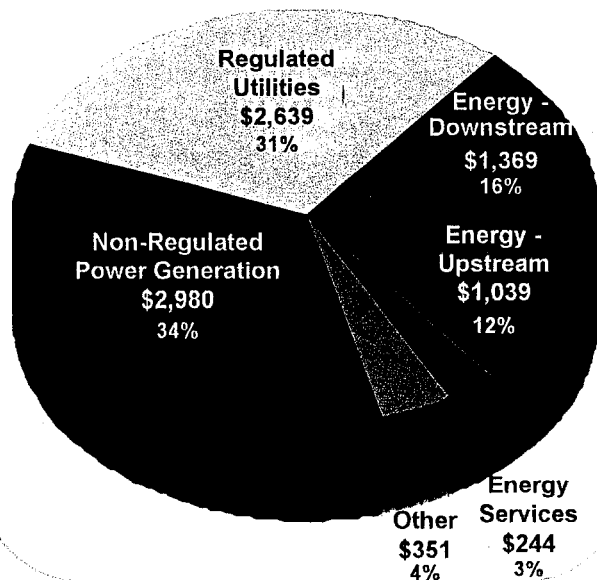
In \$MM's

Net Portfolio Carry Value \$8,622

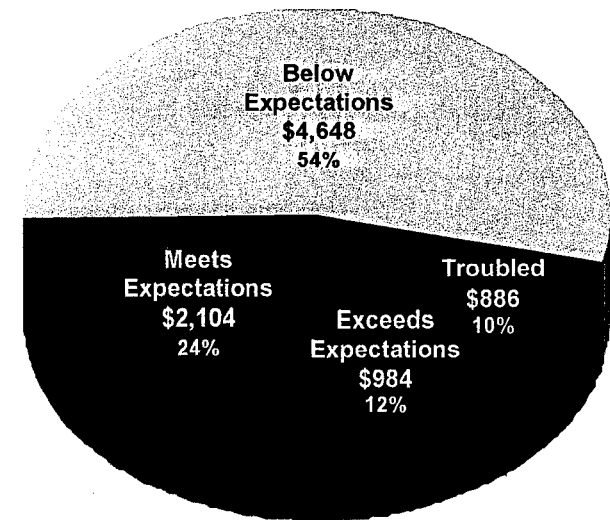
by Business Unit



by Industry



by Performance Category



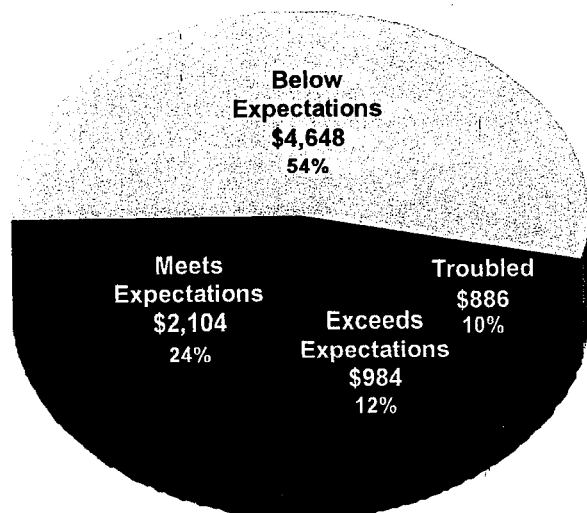
Portfolio Summary

as of March 31, 2001

In \$MM's

Net Portfolio Carry Value \$8,622

by Performance Category



Exceeds Expectations

| | |
|-------------------------------------|-----|
| El Paso (East Coast Power proceeds) | 261 |
| EcoElectrica, L.P. Equity | 203 |
| Vengas | 172 |
| Hanover Compressor | 138 |

Meets Expectations

| | |
|-------------------------------------|-----|
| Mariner | 487 |
| TGS – Transportadora De Gas Del Sur | 429 |
| Gaspart | 193 |
| KCS | 171 |

Below Expectations

| | |
|---------------------------------|-------|
| Elektro | 1,995 |
| Dabhol Power Company | 851 |
| Sarlux S.R.L. | 350 |
| SK-Enron | 265 |
| Companhia Estaudal De Gas (CEG) | 198 |
| Promigas | 155 |
| COPEL | 120 |
| Bahia Las Minas | 102 |

Troubled

| | |
|------------|-----|
| Cuiaba | 432 |
| Trakya | 214 |
| Transredes | 138 |

RAC Portfolio Initiatives

Expanded the Investment Portfolio to include all former Enron International assets (these are now held for sale by Enron Global Assets)

April 2001

Major assets in the Investment Portfolio (including Enron Global Assets) will be revalued quarterly to facilitate asset disposals

August 2001

Investment rates of return to be reported to the Board quarterly

August 2001

RAC to monitor Off-Balance Sheet Vehicles including syndications (Merlin, total return swaps/FAS 125) and accounting hedges (Raptor)

August 2001

B



Enron Energy Services

EC004403797

4-16

EES Reorganization

- Wholesale and tariff positions as well as other risk management functions transferred to Enron Wholesale Services
- Recent reorganization in EES has positioned the structuring and pricing organizations with more independence from origination
- The EES Office of the Chairman is participating in the approval process to a larger extent to improve deal profitability and provide better coordination between origination and deal booking / implementation

EC004403798

Buy

Major Challenges

• Tariff Exposure

- Continued unfavorable changes of tariff components including generation charges and Competitive Transition Charges
- Retail tariff risks are not currently characterized as a "Market Position" subject to Enron Corp. Risk Management Policy

• Credit Exposure

- High working capital requirements due to contract structures
- A disproportionate number of bankruptcies have occurred in EES' portfolio; Enron Credit Policy not consistently adhered to
- Credit exposure is not fully aggregated and system deficiencies continue

• Demand Side Management / Operations & Maintenance Exposure

- Progress in measuring actual project performance is lagging and no validation of the Demand Side Management business model assumptions exist
- Demand Side Management risk premium is still being quantified and is not yet implemented in the portfolio valuation
- Operations & Maintenance business infrastructure is grossly inadequate to determine deal-specific profitability

• Operational Risk

- Contractual deal terms and embedded options are not appropriately captured and managed

**Responsible
Business Unit**

**transferred to
Wholesale
Services**

**Wholesale
Services / EES**

EES

**Wholesale
Services / EES**

Over

EES / EWS/ RAC Task Force
Status as of April 15, 2001

| ID | Task Name | Completed Task | Qtr 3, 2000 | | | | Qtr 4, 2000 | | | Qtr 1, 2001 | | | Qtr 2, 2001 | | | Qtr 3, 2001 | | | Qtr 4, 2001 | | | Qtr 1, 2002 | |
|----|--|----------------|-------------|-----|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|-----|
| | | | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb |
| 1 | Tariff Exposure and Curve Management | | | | | | | | | | | | | | | | | | | | | | |
| 2 | Models | | | | | | | | | | | | | | | | | | | | | | |
| 3 | Review all tariff curves | | | | | | | | | | | | | | | | | | | | | | |
| 4 | Review all valuation models to ensure logic/mechanics of pulling curves properly | | | | | | | | | | | | | | | | | | | | | | |
| 5 | Institute scenarios/stress testing for all tariff risks (i.e. CTC, fuel, | | | | | | | | | | | | | | | | | | | | | | |
| 6 | interest rates, dereg dates, rate increases) | | | | | | | | | | | | | | | | | | | | | | |
| 7 | Institute monthly reporting for credit exposures by utility | | | | | | | | | | | | | | | | | | | | | | |
| 8 | Build the capability for monitoring regulatory switch options on all contracts | | | | | | | | | | | | | | | | | | | | | | |
| 9 | Establish V@R Models for tariff exposure | | | | | | | | | | | | | | | | | | | | | | |
| 10 | - Development of model for interest rate | | | | | | | | | | | | | | | | | | | | | | |
| 11 | - Development of model for fuel costs | | | | | | | | | | | | | | | | | | | | | | |
| 12 | Back Test to establish V@R limits for tariff exposure | | | | | | | | | | | | | | | | | | | | | | |
| 13 | - back test V@R model for interest rate | | | | | | | | | | | | | | | | | | | | | | |
| 14 | - back test V@R for fuel costs | | | | | | | | | | | | | | | | | | | | | | |
| 15 | | | | | | | | | | | | | | | | | | | | | | | |
| 16 | | | | | | | | | | | | | | | | | | | | | | | |
| 17 | Credit Exposure | | | | | | | | | | | | | | | | | | | | | | |
| 18 | Aggregate Credit Exposure | | | | | | | | | | | | | | | | | | | | | | |
| 19 | Phase I | | | | | | | | | | | | | | | | | | | | | | |
| 20 | Establish daily feeds for high priority A/R systems (gas, power, bundled) | Complete | | | | | | | | | | | | | | | | | | | | | |
| 21 | Establish daily feeds for MTM positions - RPS (power) | Complete | | | | | | | | | | | | | | | | | | | | | |
| 22 | Establish daily feeds for MTM position - RGS (gas) | Complete | | | | | | | | | | | | | | | | | | | | | |
| 23 | Establish daily feeds for intramonth forward - power west desk | Complete | | | | | | | | | | | | | | | | | | | | | |
| 24 | Setup global counterparty ID's for customers (630) with Dec. MTM > | Complete | | | | | | | | | | | | | | | | | | | | | |
| 25 | \$100,000 and A/R > \$50,000 | | | | | | | | | | | | | | | | | | | | | | |
| 26 | Phase II | | | | | | | | | | | | | | | | | | | | | | |
| 27 | Establish daily feeds for other A/R systems (Clinton, Bentley, etc.) | | | | | | | | | | | | | | | | | | | | | | |
| 28 | Establish daily feeds for A/P | | | | | | | | | | | | | | | | | | | | | | |
| 29 | Setup and establish daily feeds for intramonth book - RPS - East Desk | | | | | | | | | | | | | | | | | | | | | | |
| 30 | Setup and establish daily feeds for intramonth book - RGS | | | | | | | | | | | | | | | | | | | | | | |
| 31 | Set up and establish daily feeds for shipped not billed - Power | | | | | | | | | | | | | | | | | | | | | | |
| 32 | Set up and establish daily feeds for shipped not billed - Gas | | | | | | | | | | | | | | | | | | | | | | |
| 33 | Improve system and business processes of RGS to allow validated data to | | | | | | | | | | | | | | | | | | | | | | |
| 34 | be transmitted daily by 5:00 a.m. | | | | | | | | | | | | | | | | | | | | | | |
| 35 | Consolidate benchmark & credit exposure to feed Risk TRAC (by 5:00am) | | | | | | | | | | | | | | | | | | | | | | |
| 36 | Setup global counterparty ID's at average rate of 100 per week. | | | | | | | | | | | | | | | | | | | | | | |
| 37 | Implement global analysis of EES Credit Reserve (after Phase II) | | | | | | | | | | | | | | | | | | | | | | |
| 38 | Daily new deals report to assist in daily credit monitoring | | | | | | | | | | | | | | | | | | | | | | |
| 39 | Gas | Complete | | | | | | | | | | | | | | | | | | | | | |
| 40 | Power | Complete | | | | | | | | | | | | | | | | | | | | | |
| 41 | Review credit policy with Origination | Complete | | | | | | | | | | | | | | | | | | | | | |
| 42 | Review Transaction Approval Process | Complete | | | | | | | | | | | | | | | | | | | | | |

EC004403800

Arrows indicate status (incomplete items only): Red-as of 12/00 BOD meeting; Blue-as of 2/01 BOD meeting; Green-as of 3/01 Task

Summary

Progress

EES / EWS/ RAC Task Force

Status as of April 15, 2001

| ID | Task Name | Completed Task | Qtr 3, 2000 | | | | Qtr 4, 2000 | | | | Qtr 1, 2001 | | | Qtr 2, 2001 | | | Qtr 3, 2001 | | | Qtr 4, 2001 | | | Qtr 1, 2002 | |
|----|---|----------------|-------------|-----|-----|-----|-------------|-----|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|--|
| | | | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | |
| 43 | Review credit policy with Trading | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 44 | Review EES Clients and Evaluate Portfolio Quality of Credit Exposure | | | | | | | | | | | | | | | | | | | | | | | |
| 45 | Compare EES booked credit reserves to Credit Department reserve calc | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 46 | Review & implement process for booking credit reserves | | | | | | | | | | | | | | | | | | | | | | | |
| 47 | Review EES cp's, assign E ratings, evaluate portfolio quality of credit exposure | | | | | | | | | | | | | | | | | | | | | | | |
| 48 | Review EFS cp's, assign E ratings, evaluate portfolio quality of credit exposure | | | | | | | | | | | | | | | | | | | | | | | |
| 49 | Review Enron Direct cp's, assign E ratings, evaluate portfolio quality of credit exposure | | | | | | | | | | | | | | | | | | | | | | | |
| 50 | Review Clinton cp's, assign E ratings, evaluate portfolio quality of credit exposure | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 51 | Review EES Accounts Receivable | | | | | | | | | | | | | | | | | | | | | | | |
| 52 | Identify EES AR systems (listing) | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 53 | Establish consolidation timetable & establish plan | | | | | | | | | | | | | | | | | | | | | | | |
| 54 | Manual Preparation of AR aging with listing of obligors | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 55 | Automated AR aging with listing of obligors | | | | | | | | | | | | | | | | | | | | | | | |
| 56 | Define negative balance reporting criteria | | | | | | | | | | | | | | | | | | | | | | | |
| 57 | Begin payment rate reporting | | | | | | | | | | | | | | | | | | | | | | | |
| 58 | Deal Capture Controls | | | | | | | | | | | | | | | | | | | | | | | |
| 59 | Hire Deal Capture group lead | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 60 | Establish centralized deal capture / confirm group (commodity deals) | | | | | | | | | | | | | | | | | | | | | | | |
| 61 | Redesign Credit Model to accommodate larger volume of deals | | | | | | | | | | | | | | | | | | | | | | | |
| 62 | Develop Credit Process for Mass Market, Mid Market, Fast Track | | | | | | | | | | | | | | | | | | | | | | | |
| 63 | Implement Credit Process for Mass Market, Mid Market, Fast Track | | | | | | | | | | | | | | | | | | | | | | | |
| 64 | | | | | | | | | | | | | | | | | | | | | | | | |
| 65 | EAM/AOPS Exposure | | | | | | | | | | | | | | | | | | | | | | | |
| 66 | EAM Risk Book | | | | | | | | | | | | | | | | | | | | | | | |
| 67 | - Segregation of duties surrounding asset performance validation | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 68 | - Engineering Audit Control function established | | | | | | | | | | | | | | | | | | | | | | | |
| 69 | - EAM Position Reporting (Time, Capital, Efficiency) | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 70 | - Delivery Performance Risk (DAPR) philosophy and methodology | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 71 | - Site Level Actualization w/ Variance explanations | | | | | | | | | | | | | | | | | | | | | | | |
| 72 | - Daily Position Report includes EAM Options | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 73 | - Establish DASH EAM capital monitoring process | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 74 | - Establish Approval Policy for Incremental Capital (DASH Addendum) | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 75 | EAM Project valuation | | | | | | | | | | | | | | | | | | | | | | | |
| 76 | - Project valuation personnel in regions for consistency | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 77 | - Project valuation of projects in system (measure 20 projects per month) | | | | | | | | | | | | | | | | | | | | | | | |
| 78 | - Initial RAC audits (intermediate control) | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 79 | EAM Options volume | | | | | | | | | | | | | | | | | | | | | | | |
| 80 | Establish options valuation & MTM | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 81 | Develop V@R model | | | | | | | | | | | | | | | | | | | | | | | |
| 82 | Deal Pricing | | | | | | | | | | | | | | | | | | | | | | | |
| 83 | - Develop EAM volatility model | Complete | | | | | | | | | | | | | | | | | | | | | | |
| 84 | - RAC / EES agreement on handling implementation risk - pricing through MTM | | | | | | | | | | | | | | | | | | | | | | | |

EC004403801

Arrows indicate status (incomplete items only): Red - as of 12/00 BOD meeting; Blue - as of 2/01 BOD meeting; Green - as of 3/01 Task

Summary

Progress

EES / EWS/ RAC Task Force

Status as of April 15, 2001

| ID | Task Name | Completed Task | Qtr 3, 2000 | | | | Qtr 4, 2000 | | | Qtr 1, 2001 | | | Qtr 2, 2001 | | | Qtr 3, 2001 | | | Qtr 4, 2001 | | | Qtr 1, 2002 | |
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| | | | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb |
| 85 | | | | | | | | | | | | | | | | | | | | | | | |
| 86 | Establish AOPs Risk Book | | | | | | | | | | | | | | | | | | | | | | |
| 87 | - Establish Risk Analytics group for AOPS | Complete | | | | | | | | | | | | | | | | | | | | | |
| 88 | - Inventory AOP's deals | Complete | | | | | | | | | | | | | | | | | | | | | |
| 89 | - Develop financial models supporting deal risk exposure | | | | | | | | | | | | | | | | | | | | | | |
| 90 | - Review Accounting Process | | | | | | | | | | | | | | | | | | | | | | |
| 91 | | | | | | | | | | | | | | | | | | | | | | | |
| 92 | | | | | | | | | | | | | | | | | | | | | | | |
| 93 | Operational Risk | | | | | | | | | | | | | | | | | | | | | | |
| 94 | Bill Payment/Invoicing System Reconciliation to Commodity Books | | | | | | | | | | | | | | | | | | | | | | |
| 95 | Establish plan for legacy deal reforecast | | | | | | | | | | | | | | | | | | | | | | |
| 96 | - Deep Dive process established/participation in ongoing deep dives | | | | | | | | | | | | | | | | | | | | | | |
| 97 | - Reforecasting performed on legacy deals & ongoing process implemented | Complete | | | | | | | | | | | | | | | | | | | | | |
| 98 | Cash Reconciliation of Liquidation | | | | | | | | | | | | | | | | | | | | | | |
| 99 | - Establish plan | Complete | | | | | | | | | | | | | | | | | | | | | |
| 100 | - Define data requirements; develop reconciliation process | | | | | | | | | | | | | | | | | | | | | | |
| 101 | - Implement ongoing reconciliation, PPA process | | | | | | | | | | | | | | | | | | | | | | |
| 102 | Capture Tariff Price From Utility Bills | | | | | | | | | | | | | | | | | | | | | | |
| 103 | - Develop & implement tariff price update process | | | | | | | | | | | | | | | | | | | | | | |
| 104 | Address Working Capital Issue - Invoice and Payment System | | | | | | | | | | | | | | | | | | | | | | |
| 105 | - Establish plan | Complete | | | | | | | | | | | | | | | | | | | | | |
| 106 | Risk Analytics | | | | | | | | | | | | | | | | | | | | | | |
| 107 | Position Report | | | | | | | | | | | | | | | | | | | | | | |
| 108 | Intramonth reporting for Power West | Complete | | | | | | | | | | | | | | | | | | | | | |
| 109 | Create intramonth reporting for Power East in excel | Complete | | | | | | | | | | | | | | | | | | | | | |
| 110 | Create East intramonth book in Access Database | | | | | | | | | | | | | | | | | | | | | | |
| 111 | Intramonth reporting for Gas | | | | | | | | | | | | | | | | | | | | | | |
| 112 | - Validate ALTRA positions / verify spot curves / IM Gas P&L Reporting | Complete | | | | | | | | | | | | | | | | | | | | | |
| 113 | - Develop & implement a plan for systems support from ALTRA To RGS | | | | | | | | | | | | | | | | | | | | | | |
| 114 | Canadian Risk Position Reporting | | | | | | | | | | | | | | | | | | | | | | |
| 115 | - Gas Positions captured in excel model revalued and reported monthly | Complete | | | | | | | | | | | | | | | | | | | | | |
| 116 | - Conversion of Position from excel to RGS | Complete | | | | | | | | | | | | | | | | | | | | | |
| 117 | - Power Canadian wholesale curve developed | Complete | | | | | | | | | | | | | | | | | | | | | |
| 118 | - Power T&D curve development | Complete | | | | | | | | | | | | | | | | | | | | | |
| 119 | - Timely value / report of Power Canada Positions | Complete | | | | | | | | | | | | | | | | | | | | | |
| 120 | Stress testing procedures | Complete | | | | | | | | | | | | | | | | | | | | | |
| 121 | Ad Hoc stress testing procedures | Complete | | | | | | | | | | | | | | | | | | | | | |
| 122 | | | | | | | | | | | | | | | | | | | | | | | |
| 123 | | | | | | | | | | | | | | | | | | | | | | | |
| 124 | New Deal Valuation | | | | | | | | | | | | | | | | | | | | | | |
| 125 | Improve and streamline transaction valuation and market risk models | | | | | | | | | | | | | | | | | | | | | | |
| 126 | Enhance Risk TRAC to handle risk analytics of EES portfolio (V@R analysis) | | | | | | | | | | | | | | | | | | | | | | |

EC004403802

P. Layton / V. Gorny

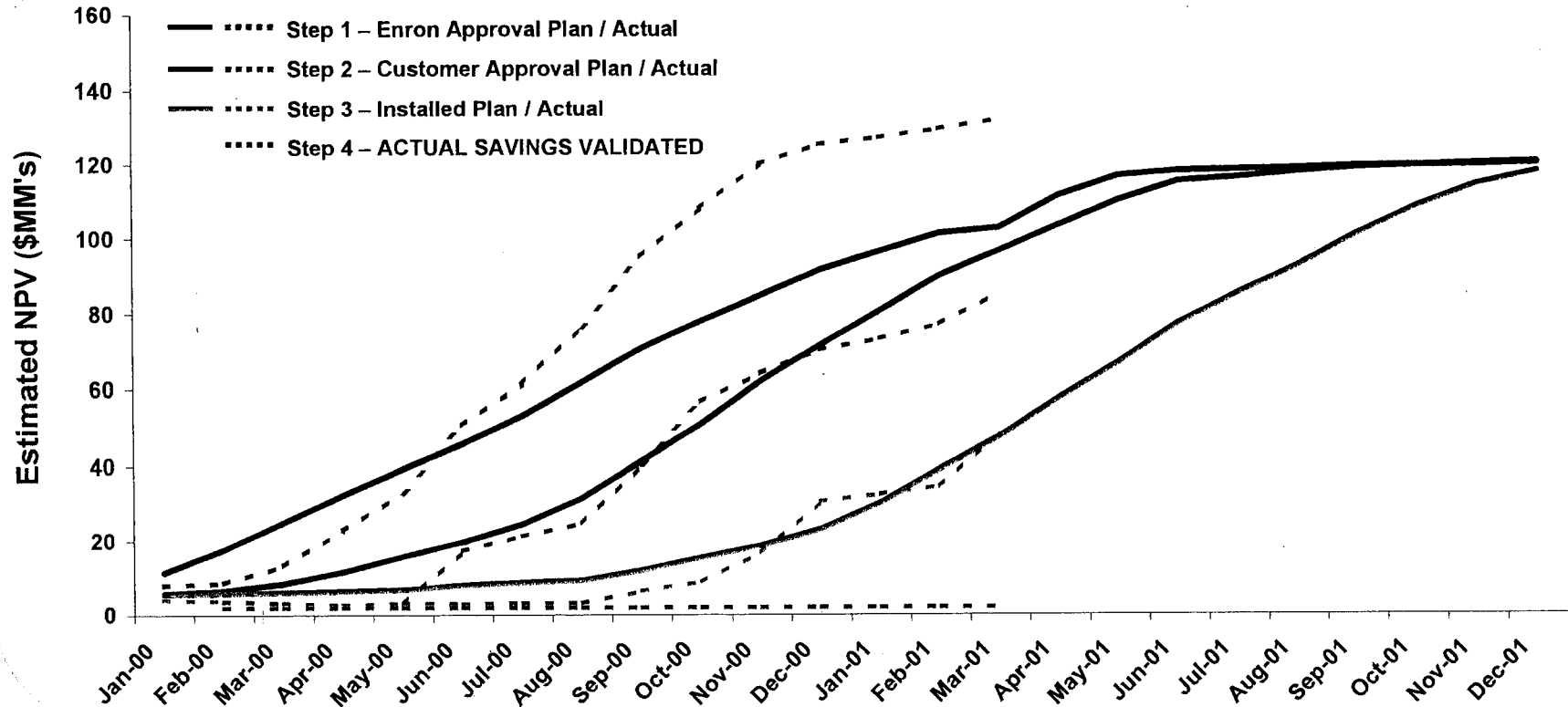
Arrows indicate status (incomplete items only): Red-as of 12/00 BOD meeting; Blue-as of 2/01 BOD meeting; Green-as of 3/01 Task

Summary

Progress

Energy Asset Projects

Net Present Value
as of March 31, 2001



- Progress slowed in January and February after strong performance in end of 2000:
Clean-up of 2000 project work
California volatility mitigation
Owens Corning delays
- Project performance measurement process in place, but execution is lagging
- NPV shown above is all estimated savings, no actual savings have been validated

*lengthy discussion
of California energy
crisis*

Market Risk Update

Buy - quality

Finance Committee

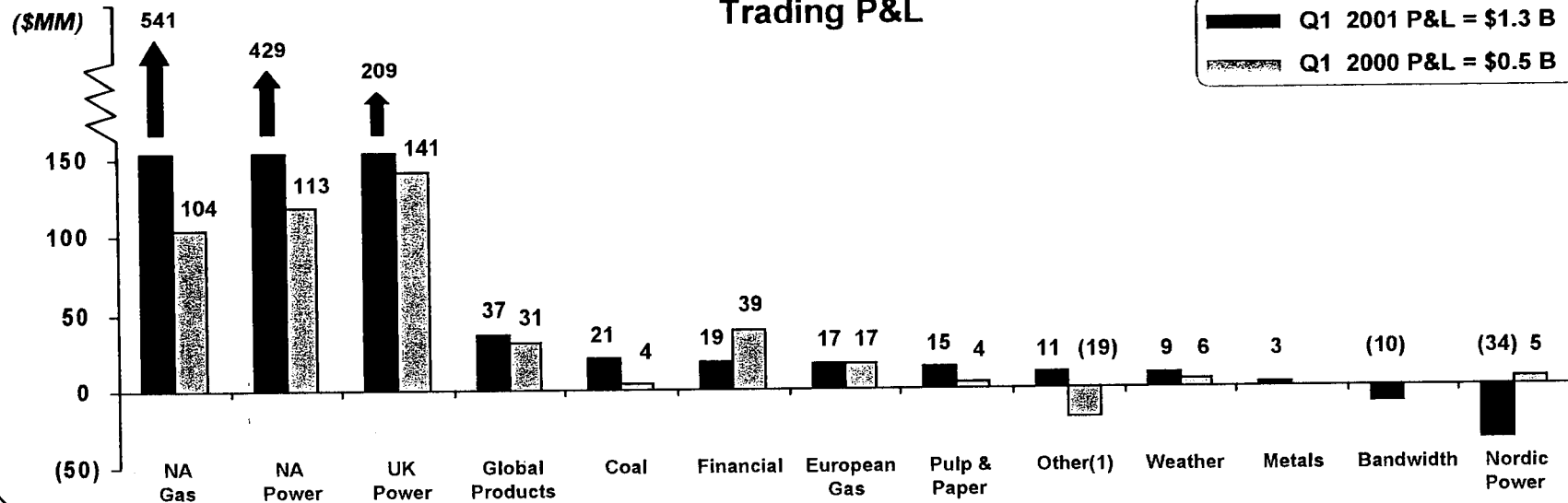
Table of Contents

- Risk Profile by Product
- Risk Profile by Primary Commodity and Business Unit
- Relative Risk Comparison
- Backtesting of Enron Corp. Aggregate VaR
- Utilization of VaR Limits
- Potential Losses from Various Market Scenarios
- Enron Foreign Exchange Update
- Trading Limit Changes
- Policy Changes

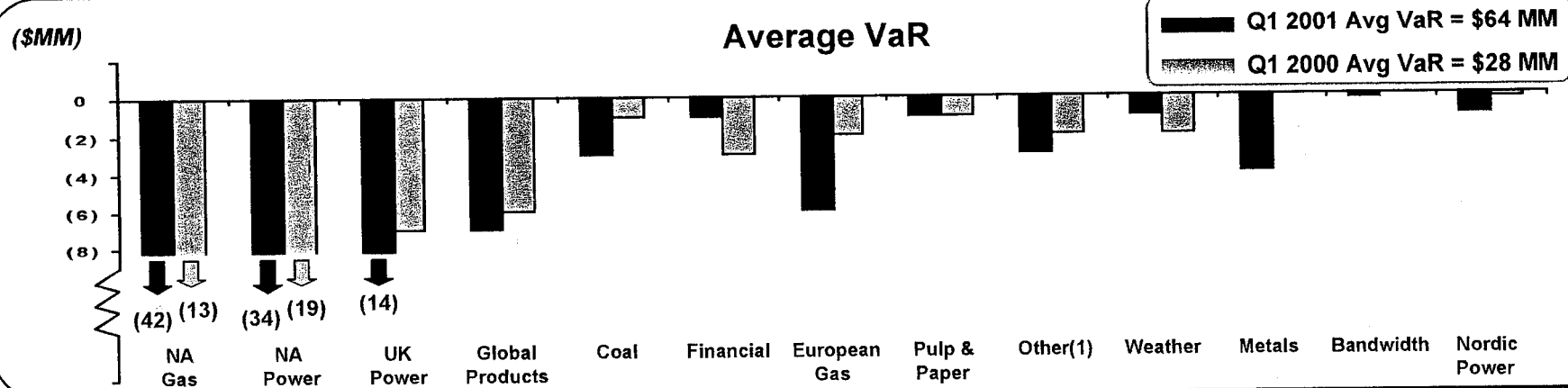
Risk Profile by Product

Quarter Ended March 31, 2001 and 2000

Trading P&L



Average VaR



| Return on VaR | NA Gas | NA Power | UK Power | Global Products | Coal | Financial | European Gas | Pulp & Paper | Other(1) | Weather | Metals | Bandwidth | Nordic Power | Enron |
|---------------|--------|----------|----------|-----------------|------|-----------|--------------|--------------|----------|---------|--------|-----------|--------------|-------|
| 2001 | 163% | 158% | 185% | 70% | 104% | 156% | 35% | 201% | 45% | 77% | 10% | nil | nil | 251% |
| 2000 | 99% | 76% | 244% | 71% | 61% | 148% | 143% | 74% | nil | 41% | nil | nil | 395% | 201% |

(1) includes commodities with 2001 profit/loss less than \$7 MM

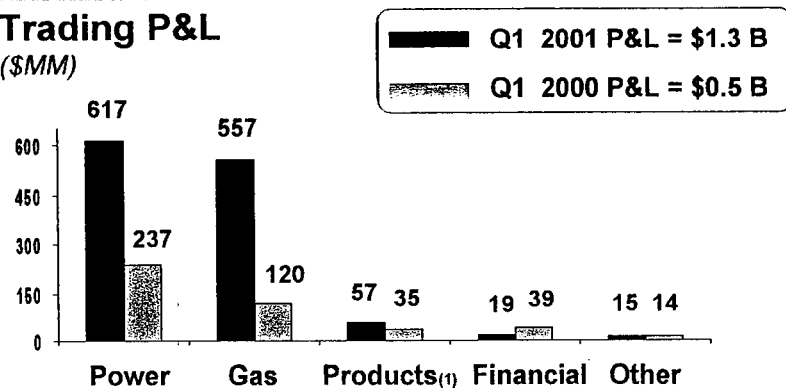
B

Risk Profile by Primary Commodity and Business Unit

Quarter Ended March 31, 2001 and 2000

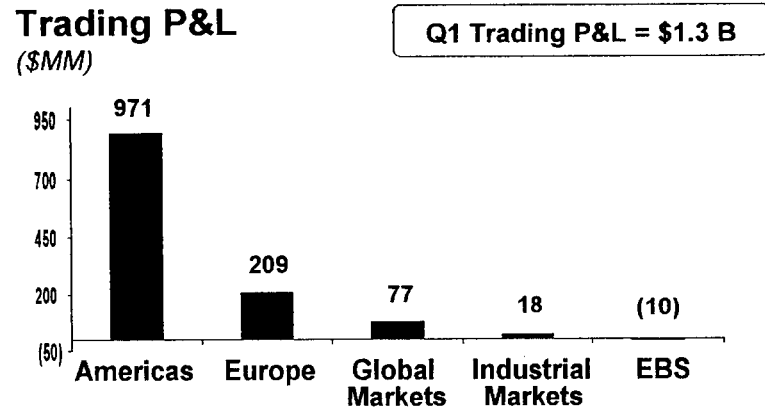
Commodity Comparison

Trading P&L (\$MM)

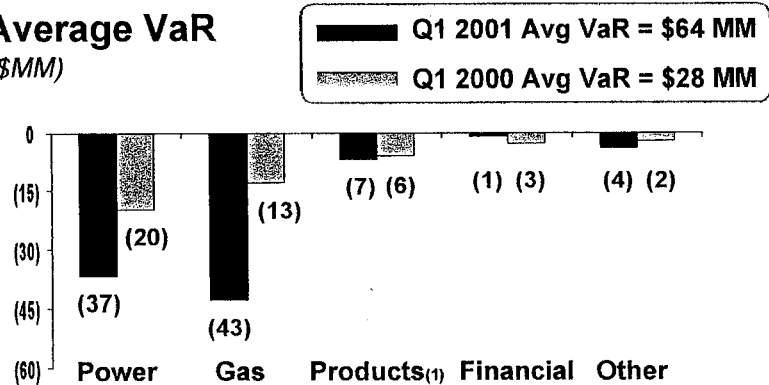


Business Unit Comparison

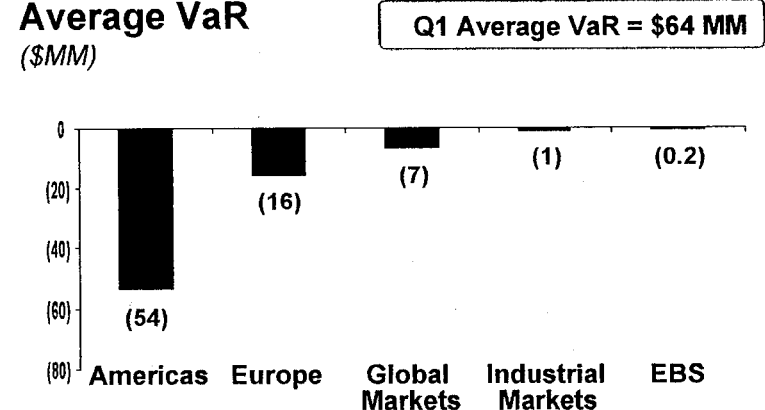
Trading P&L (\$MM)



Average VaR (\$MM)



Average VaR (\$MM)



| Return on VaR | 209% | 166% | 101% | 156% | 44% |
|---------------|------|------|------|------|-----|
| | | | | | |

Enron
251%

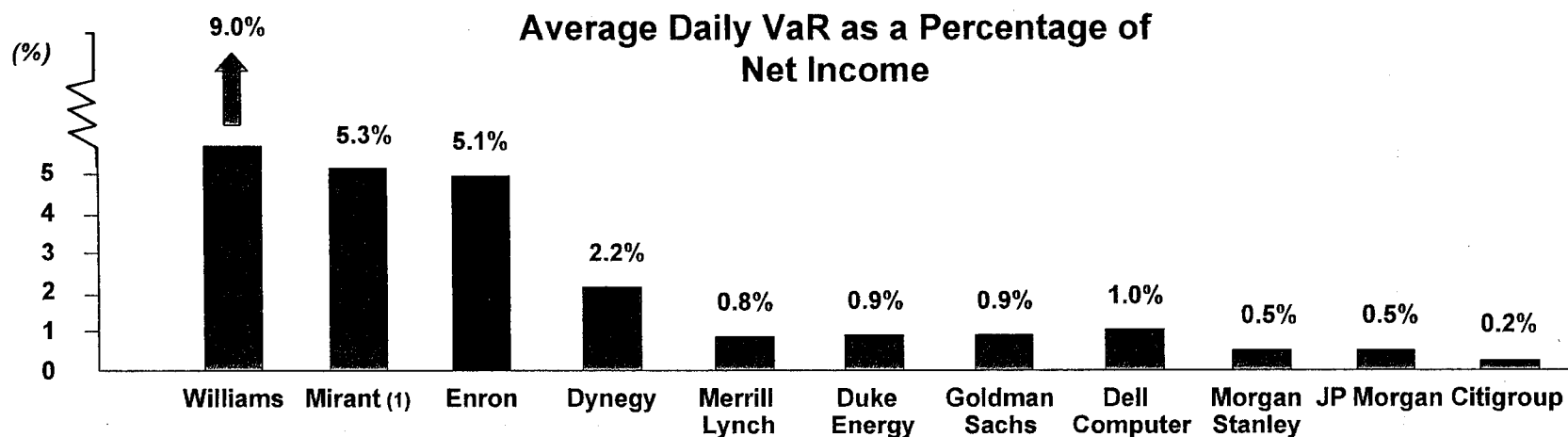
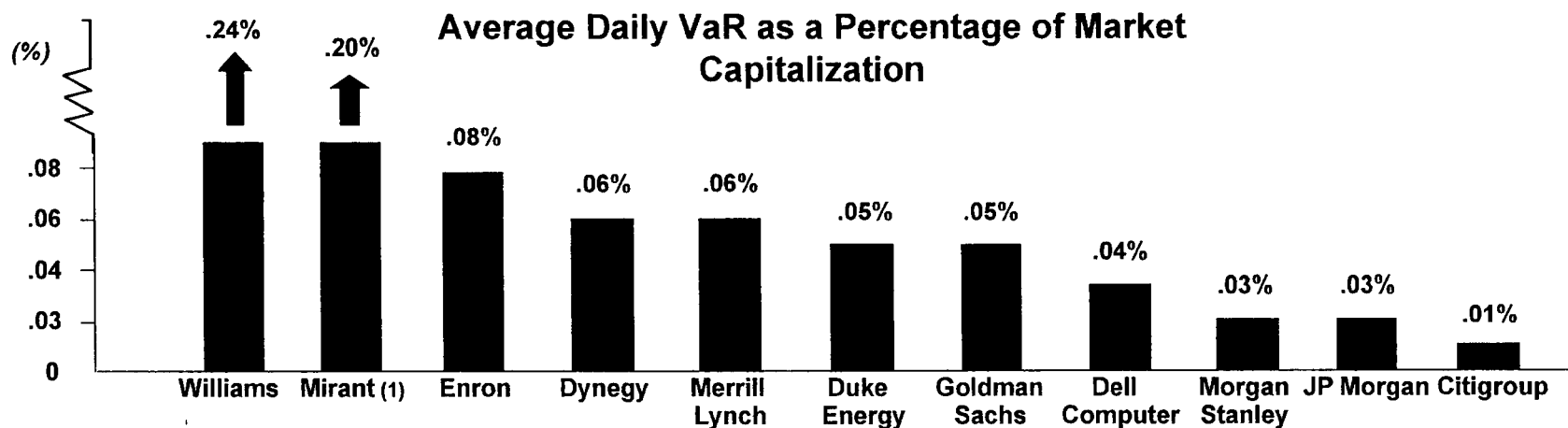
| Return on VaR | 226% | 163% | 130% | 218% | nil |
|---------------|------|------|------|------|-----|
| | | | | | |

Enron
251%

(1) Global Products and Coal

Relative Risk Comparison

Year Ended December 31, 2000

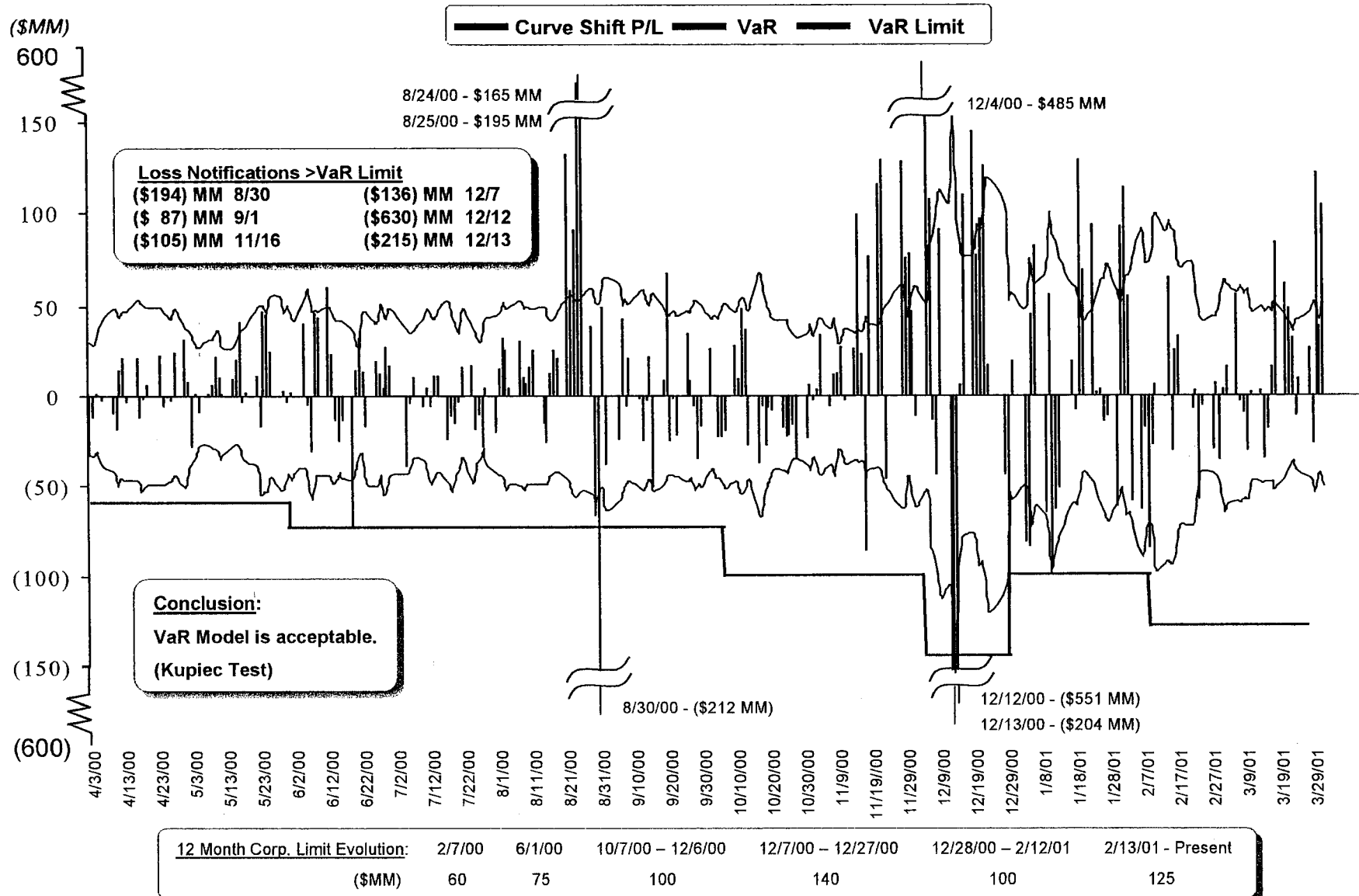


| | | | | | | | | | | | |
|-------------------------------|-----|-----|-----|-----|-------|-------|-------|-------|-------|-------|--------|
| Avg Daily VaR (\$MM) | 47 | 19 | 50 | 11 | 32 | 16 | 28 | 17 | 28 | 29 | 26 |
| Market Cap at 12/31/00 (\$Bn) | 19 | 10 | 62 | 18 | 55 | 31 | 51 | 45 | 87 | 88 | 254 |
| Net Income (\$MM) | 524 | 359 | 979 | 501 | 3,784 | 1,776 | 3,067 | 1,666 | 5,456 | 5,727 | 13,519 |

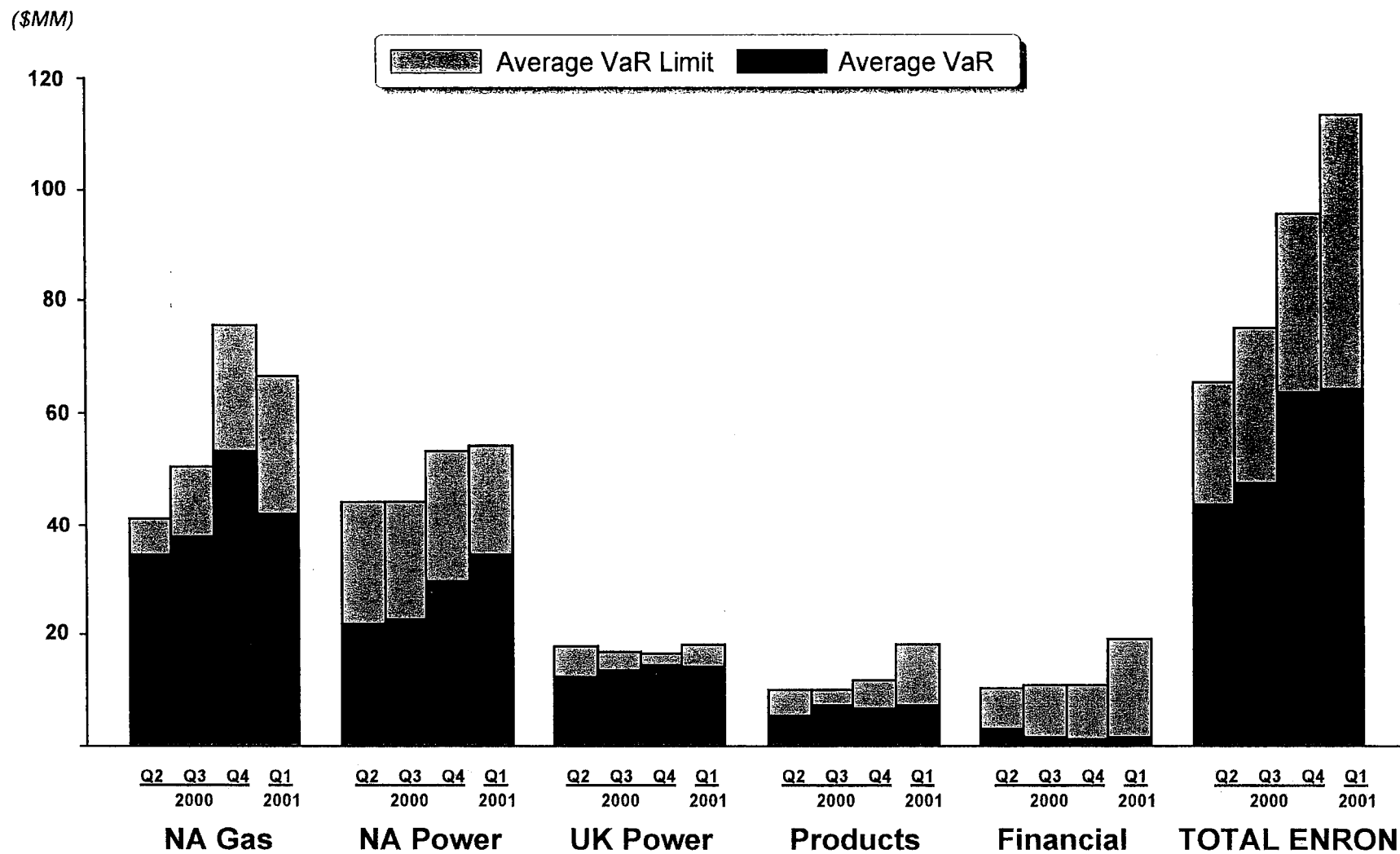
(1) 2000 spin-off of Southern Company's non-regulated business

Backtesting of Enron Corp. Aggregate VaR

12 Months Ended March 31, 2001



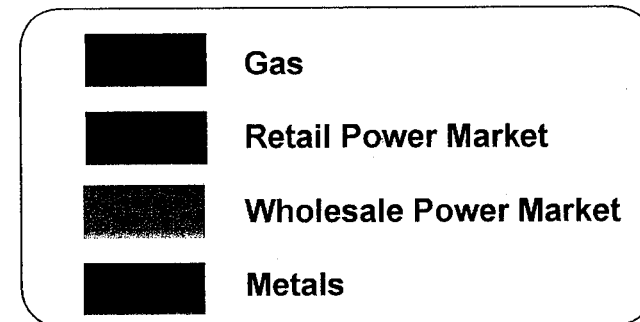
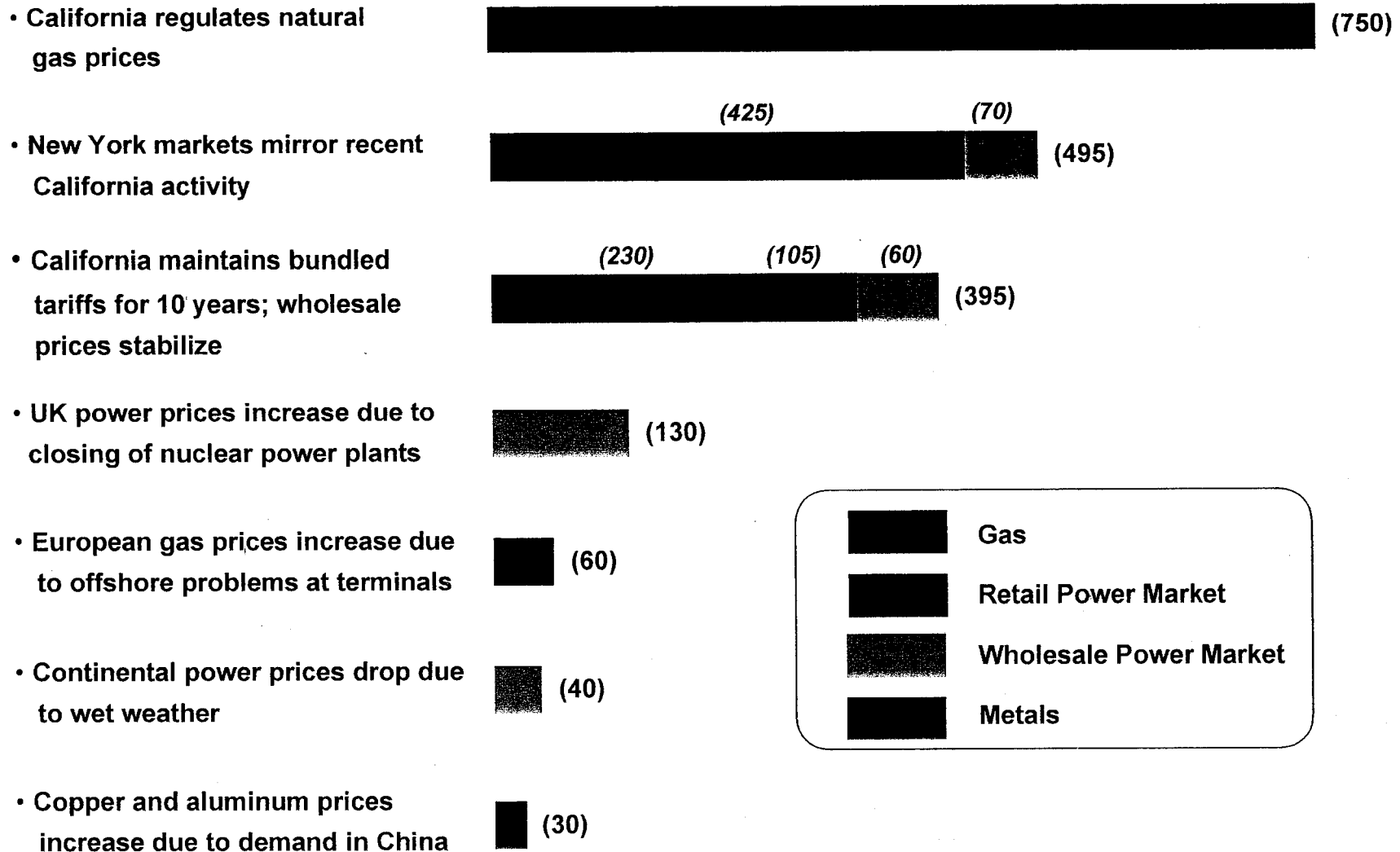
Utilization of VaR Limits Quarterly Comparison



Potential Losses from Various Market Scenarios as of March 31, 2001

What if...

(\$MM) (100) (200) (300) (400) (500) (600) (700) (800)



b

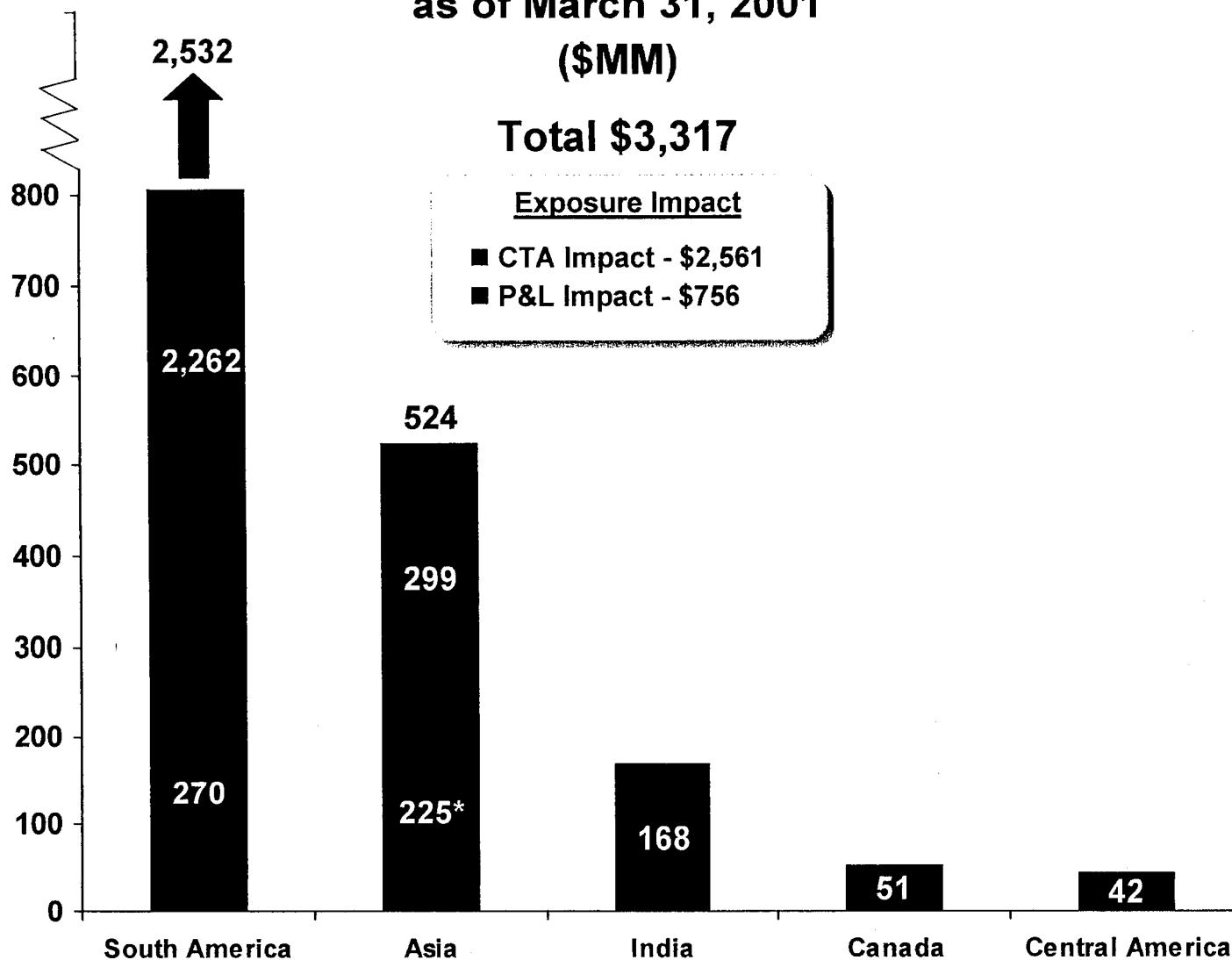
Top Five Foreign Exchange Exposures

Net Notional Position by Business Unit

as of March 31, 2001

(\$MM)

Total \$3,317

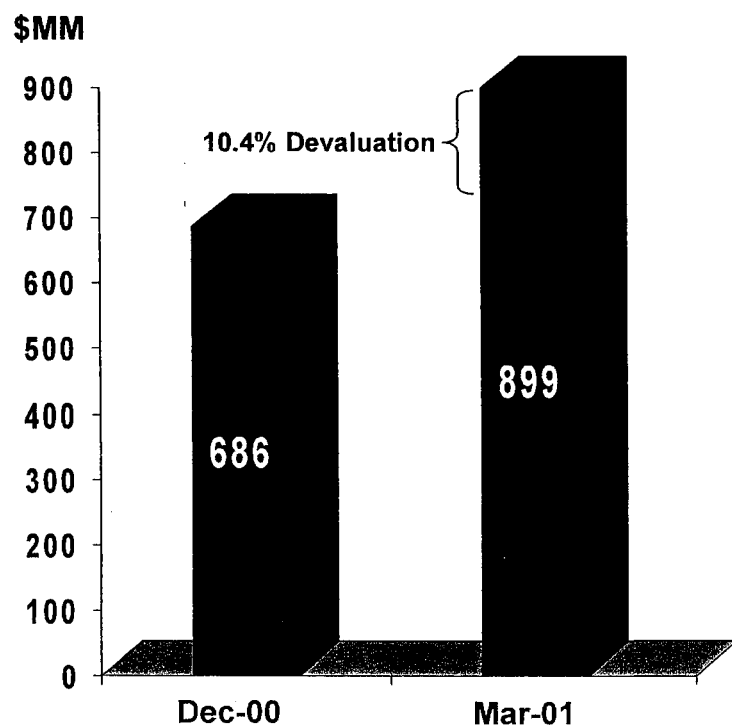


*Asia's P&L exposure represents payments received on sale of Hainan of \$157MM, and SK-Enron exposure of \$68MM

B

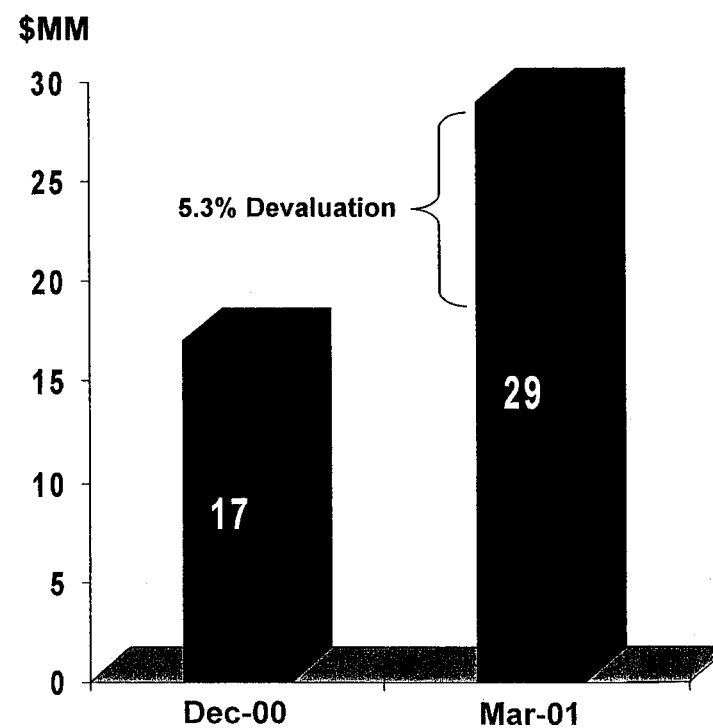
Cumulative Translation Adjustment (CTA) Balances as of March 31, 2001

South America



Total Devaluation of 99.3% to 2.1525 BRL/USD since purchase of CEG, CegRio and Gaspart in Jul-97 at 1.0803 BRL/USD

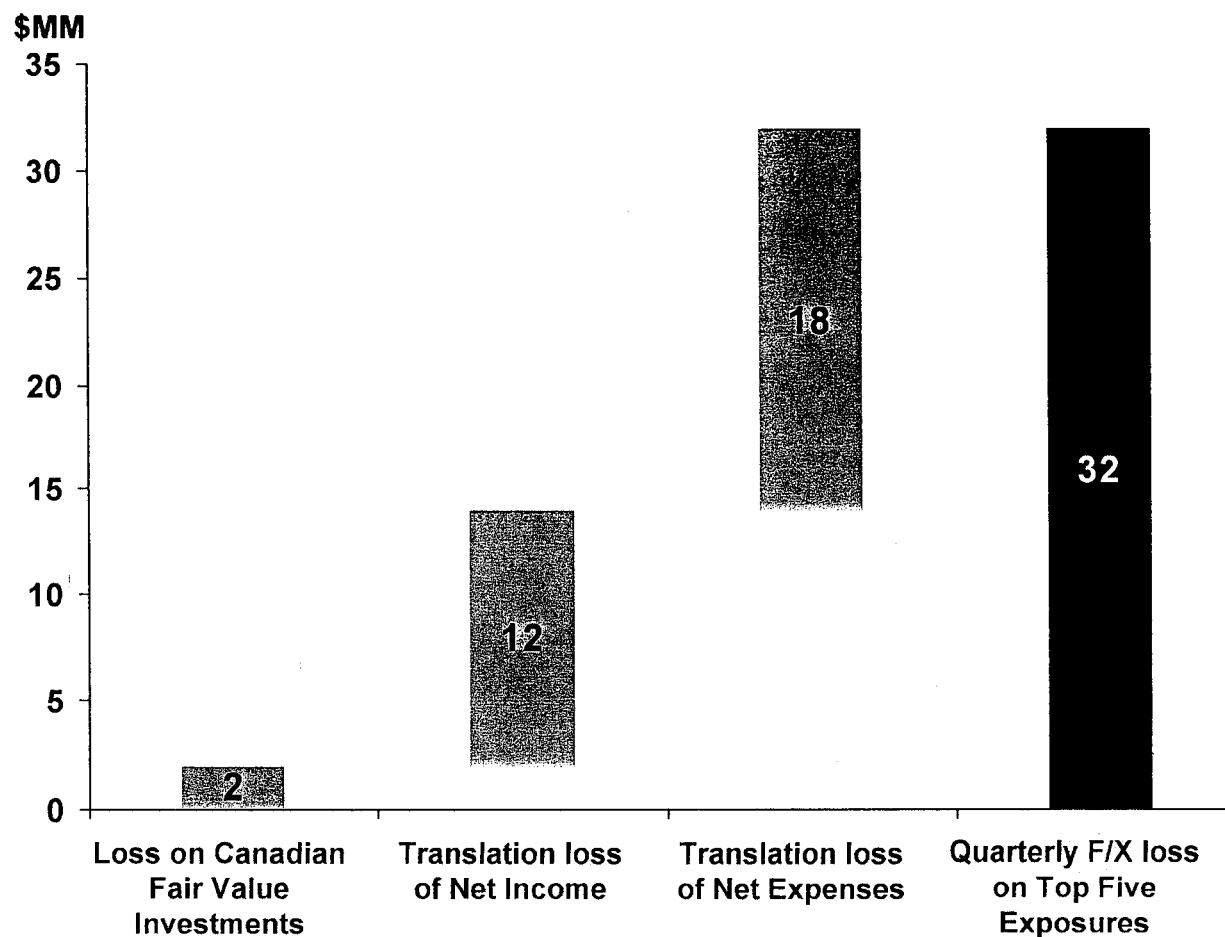
Asia



Total Devaluation of 13.8% to 1331 KRW/USD since purchase of SK-Enron in Jan-99 at 1170 KRW/USD

P&L Impact from Top Five Foreign Exchange Exposures

Quarter Ended March 31, 2001



Summary of Trading Limit Changes

Recommended Changes to Policy Limits:

Note: Enron Corp. Aggregate VaR Limit - - - NO CHANGE REQUESTED - - - \$125 MM

| | <u>Recommended Permanent Limit</u> | <u>Existing Permanent Limit</u> |
|---|--|--------------------------------------|
| <u>UK Electricity</u> | | |
| Net Open Position Limit | 60 Twh | 35 Twh |
| Maturity / Gap Limit | 15 Twh | 15 Twh |
| VaR Limit | \$ 30 MM | \$ 10 MM |
| | | <u>Interim Limits Granted</u> |
| <u>Freight Markets Trading</u> | | |
| Net Open Position Limit | 83,000 Full Truckload Units | 41,500 Full Truckload Units |
| Maturity / Gap Limit | 103,750 Full Truckload Units | 51,875 Full Truckload Units |
| VaR Limit | \$ 2 MM | \$ 1 MM |
| <u>Global Risk Markets Trading</u> | | |
| Net Open Position Limit | 300,000 Mwh | 100,000 Mwh |
| Maturity / Gap Limit | N/A | N/A |
| VaR Limit | \$ 3 MM | \$ 1 MM |
| Lifetime Capital at Risk (P95) | \$ 30 MM | \$ 10 MM |
| Notional Maximum Loss (P95) | \$120 MM | \$ 40 MM |

Buy

Summary of Trading Limit Changes

Recommended Changes to Policy Limits (continued):

| | <u>Recommended Permanent Limit</u> | <u>Existing Permanent Limit</u> |
|-------------------------|--|-------------------------------------|
| <u>Advertising</u> | | |
| Net Open Position Limit | 28,000 Cost Per Point * | 54 Cost Per Point |
| Maturity / Gap Limit | 56,000 Cost Per Point * | 108 Cost Per Point |
| VaR Limit | \$ 2 MM | \$ 2 MM |

* Position limit changes not substantive; due to benchmark measurement adjustment

| | | |
|------------|---------------|---------|
| <u>EES</u> | | |
| VaR Limit | Terminated ** | \$ 5 MM |

** Termination of business unit sub-limit due to transfer of wholesale trading to Enron Americas

Interim Limit Extension for 6 additional months

| | |
|-------------------------|-------------------------------|
| <u>DRAM Chips</u> | |
| Net Open Position Limit | 2 MM Benchmark Equiv. Chips |
| Maturity / Gap Limit | 1.5 MM Benchmark Equiv. Chips |
| VaR Limit | \$ 1 MM |

Summary of Policy Changes

We recommend BOD approval of the following amendments to the Risk Management Policy:

- ◆ **Modify the reporting requirements to the Enron Corp. Office of the Chairman as follows:**
 - **make the reporting requirements to the Chairman of the Board the same as those to the Chairman of the Finance Committee; (ie. limit daily reporting of individual commodity group violation/notifications to the Business Unit Office of the Chair and to the Enron Corp. President and CEO)**
 - **replace the current level of reporting to the Chairman of the Board with reporting to the Enron Corp. CEO (no immediate impact on reporting as the President is currently also the CEO)**

Agenda item 5

EC004403818

Enron Corp.

Projects and Amendments

April 30, 2001

EC004403819

Agenda Item 5a

EC004403820

Interoffice Memorandum



To: The Finance Committee of the Board of Directors

From: Jeff Skilling and Rick Buy

Department: Risk Assessment and Control

Subject: Recommended Changes to the Risk Management Policy

Date: April 30, 2001

- I. We are recommending BOD approval of the following trading limits as amendments to the Risk Management Policy:

| | <u>Recommended Permanent Limits</u> | <u>Existing Limits</u> |
|---|--|--|
| <u>UK Electricity</u> | | |
| Net Open Position Limit | 60 Twh | 35 Twh |
| Maturity / Gap Limit | 15 Twh | 15 Twh |
| VaR Limit | \$ 30 MM | \$ 10 MM |
| | | <u>Interim Limits Granted</u> |
| <u>Freight Markets Trading</u> | | |
| Net Open Position Limit | 83,000 Full Truckload Units | 41,500 Full Truckload Units |
| Maturity / Gap Limit | 103,750 Full Truckload Units | 51,875 Full Truckload Units |
| VaR Limit | \$ 2 MM | \$ 1 MM |
| <u>Global Risk Markets Trading</u> | | |
| Net Open Position Limit | 300,000 Mwh | 100,000 Mwh |
| Maturity / Gap Limit | N/A | N/A |
| VaR Limit | \$ 3 MM | \$ 1 MM |
| Lifetime Capital at Risk (P95) | \$ 30 MM | \$ 10 MM |
| Notional Maximum Loss (P95) | \$120 MM | \$ 40 MM |
| | <u>Recommended Permanent Limits</u> | <u>Existing Limits</u> |
| <u>Advertising</u> | | |
| Net Open Position Limit | 28,000 Cost Per Point * | 54 Cost Per Point |
| Maturity / Gap Limit | 56,000 Cost Per Point * | 108 Cost Per Point |
| VaR Limit | \$ 2 MM | \$ 2 MM |

* Position limit changes not substantive; due to benchmark measurement adjustment

| | | |
|-------------------|---------------|---------|
| <u>EES</u> | | |
| VaR Limit | Terminated ** | \$ 5 MM |

** Termination of business unit sub-limit due to transfer of wholesale trading to Enron Americas

| | |
|--------------------------|---|
| | <u>Interim Limit Extension for 6 additional months</u> |
| <u>DRAM Chips</u> | |
| Net Open Position Limit | 2 MM Benchmark Equivalent Chips |
| Maturity / Gap Limit | 1.5 MM Benchmark Equivalent Chips |
| VaR Limit | \$ 1 MM |

- II. We are recommending BOD approval of the following amendments to the Risk Management Policy:

- ◆ Modify the reporting requirements to the Enron Corp. Office of the Chairman as follows:
 - make the reporting requirements to the Chairman of the Board the same as those to the Chairman of the Finance Committee; (ie. limit daily reporting of individual commodity group violation/notifications to the Business Unit Office of the Chair and to the Enron Corp. President and CEO)
 - replace the current level of reporting to the Chairman of the Board with reporting to the Enron Corp. CEO (no immediate impact on reporting as the President is currently also the CEO)

EC004403821

ENRON CORP.
RISK MANAGEMENT POLICY
Approved by Enron Corp. Board of Directors

Proprietary and Confidential

Approved: October 1, 1996
Amended: December 8, 1998
Amended: May 3, 1999
Amended: August 10, 1999
Amended: October 20, 1999
Amended: December 14, 1999

Amended: February 7, 2000
Amended: May 2, 2000
Amended: August 8, 2000
Amended: October 7, 2000
Amended: December 12, 2000

Amended: February 13, 2001
Amended: May 1, 2001

I. General Authorization

Enron Corp. is authorized to execute Transactions and manage these Transactions within certain authorized Portfolios in support of its businesses.

All Transactions covered by this policy must be conducted in compliance with all Enron Corp. policies, as each may be amended, supplemented or restated from time to time (collectively the "Enron Corp. Policies").

II. Portfolios

Designated Enron Business Units are authorized to enter into Transactions which create Positions for Enron Corp. and its affiliates, other Enron Business Units or their respective customers within the authorized Commodity Groups and limits, specified in the Appendices. These Positions are managed in the following Portfolios:

- A. **Trading Portfolio** – designed to capture and manage risks related to physical delivery of energy and other commodities, to provide related risk management services, to take advantage of market arbitrage opportunities and to manage positions within the approved limits. This portfolio includes commodity transactions, financial instruments and securities transactions.
- B. **Merchant Portfolio** – designed to capture and manage merchant investments in public and private companies, including the active management of embedded exposures and to provide greater liquidity for Enron's merchant investment activities, consistent with Enron Corp.'s core competencies within the approved limits. This portfolio includes equity, "equity-like," debt and "debt-like" investments in the public and private sector.
- C. **Capital Portfolio** – designed to accommodate positions and transactions in Enron's own stock or derivatives thereof which may occur from time to time in the execution of approved structural transactions (for example, stock buy-backs, hedging of stock option programs, etc.).

III. Limit Structure

Generally, Enron Business Units' business activities are subject to a combination of limits. These limits include, but are not limited to: Net Open Position, Maturity/Gap Risk, Potential Exposure (VaR), Regulated Exchange Limits, and Loss Notifications, as appropriate for the type of business activity under consideration.

Limits will be applied at the Commodity Group and Portfolio level, as appropriate and monitored daily. Unless specifically allocated to a business unit for a basket of products, these limits are to be applied against Enron's consolidated position on an individual commodity group basis.

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- A. **Net Open Position Limits.** Enron Business Units' activities are subject to the Net Open Position limits at the Commodity Group level, as specified in the Appendices. For purposes of monitoring the Net Open Position Limits, all Positions within a Commodity Group shall be aggregated into a reference Benchmark Position assigned to each group.
- B. **Maturity/Gap Risk Limits.** Enron Business Units' activities are subject to the Maturity/Gap Risk limits at the Commodity Group level, as specified in the Appendices. For purposes of monitoring the Maturity/Gap Risk Limits, all Positions within a Commodity Group shall be aggregated into a reference Benchmark Position assigned to each group.
- C. **Potential Exposure Limits.** Enron Business Units' activities are subject to potential exposure analysis using stress-testing and scenario analysis, as directed by the Enron Corp. Chief Risk Officer, and limits based on Value-at-Risk (VaR), as specified in the Appendices, calculated daily or as appropriate to the business activity under consideration at the Portfolio level and at the Commodity Group level.
- D. **Regulated Exchange Limits.** Enron Business Units may be subject to limits imposed by regulated exchanges on which they transact. Enron Business Units shall comply with any such limits imposed on them, as such limits may be modified from time to time.
- E. **Loss Notifications.** Daily Losses and Cumulative 5-day Losses resulting from Enron Business Units' activities are subject to the reporting requirements specified in Section IV.C.

All Enron Business Units are expected to formulate limits subordinate to limits specified in the Appendices, and such sub-limits should be monitored internally and act as triggers for reference to and action by senior Enron Business Unit management.

IV. Limit Violation/Loss Notification Requirements

Notwithstanding the other provisions of this Policy, any violation of limits must be reported to the Enron Corp. Chief Risk Officer. This limit violation report should be made to the Chief Risk Officer by the Enron Business unit prior to entering into a Transaction if there is a sufficient reason to believe that a limit violation will occur. Requirements for reporting limit violations and loss notifications, each accompanied by an explanation, as follows:

- A. **Net Open Position Limits; Maturity/Gap Risk Limits.** If the limit violation exceeds the applicable limit by greater than or equal to five percent (5%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the Enron Business Unit Office of the Chairman and to the President of Enron Corp. If the limit violation exceeds the applicable limit by greater than or equal to ten percent (10%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the Chief Executive Officer of Enron Corp.
- B. **Value-at-Risk Limits.** If the VaR for any Commodity Group or Portfolio exceeds the applicable limit by greater than or equal to five percent (5%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the Enron Business Unit Office of the Chairman and to the President of Enron Corp. If the VaR for any Commodity Group or Portfolio exceeds the applicable limit by greater

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- B. **Position Reporting.** Designated Enron Business Units shall prepare, distribute and make available data constituting a daily report ("Daily Position Report") including Commodity Group Net Open Position, Maturity/Gap Position, profit or loss, potential exposure (VaR) and any other parameters as may be required by the President or the Chief Risk Officer of Enron Corp. The Daily Position Reports at the Commodity Group level will also report various limits compared to their respective actual amounts and will be signed off by the Commodity Group Manager of the position(s) and the head of the commercial support group responsible for their preparation, before any subsequent trading occurs.

For purposes of limit monitoring and aggregation of Enron's consolidated trading results, Enron's consolidated Daily Position Report should include the Net Open Position, Maturity/Gap Position, profit or loss, and potential exposure (VaR) for approved Commodity Groups consolidated across the company without regard to which business unit undertook the trading activity. In those instances where limits are granted to a business unit for a basket of commodities, reporting for individual commodity risk books shall be maintained to facilitate aggregation of Enron's actual consolidated commodity specific exposure. Management reporting may separately provide business unit sub-limit monitoring and trading results aggregated according to management lines.

The President of Enron Corp. and Enron Corp. Chief Risk Officer shall designate individuals who are authorized to approve the Daily Position Report on behalf of Enron Corp. After approval, a consolidated Daily Position Report shall be distributed to the Chairman, the President, the Chief Accounting Officer, the Chief Risk Officer of Enron Corp. and others as designated by the President or the Chief Risk Officer of Enron Corp.

- C. **Stress and Scenario Testing.** On a monthly basis, or as markets dictate, designated Enron Business Units shall formulate and examine the effects of extreme changes in the market parameters relevant to exposures and positions. Results of these tests should be made available to the Enron Corp. Chief Risk Officer, or his designee(s).
- D. **Valuation.** On a monthly basis, or as markets dictate, designated Enron Business Units shall provide evidence of verification of all market parameters used in the calculation of risk metrics and profits and losses. This should be made available to the Enron Corp. Chief Risk Officer, or his designee(s).
- E. **Transaction Approval and Execution.** Only those employees designated by the Enron Corp. Chief Risk Officer or his designee(s) will be authorized to enter into Transactions on behalf of Enron. The Chief Risk Officer must also maintain a record of those employees responsible for the individual Commodity Groups (Commodity Group Manager) as specified in the Appendices. Individuals will be assigned as commodity leaders to manage Enron's aggregate position across the company as determined necessary by the Chief Risk Officer. All Transactions must be entered into in compliance with current policies of the Credit Group, Market Risk Management Group, and other relevant groups, as determined by the Enron Corp. Chief Risk Officer. All trades executed on the telephone must be executed on telephones that are recorded electronically.
- F. **Brokerage Accounts.** Designated Enron Business Units periodically open trading accounts with clearing brokers to facilitate the conduct of their business. All openings or revisions of trading accounts with a broker or brokers will be reviewed and approved by the Enron Corp. Chief Risk Officer or his designee(s). The Enron Corp. Chief Risk Officer or his designee(s) will also notify the brokers of the names of personnel authorized to trade futures, options or other contracts on regulated exchanges.

VI. Policy Amendment Authority

- A. **Portfolios, Commodity Groups and Positions.** Subject to the authorization of the Board of Directors, the Enron Corp. Chairman, the President of Enron Corp. and the Enron Corp. Chief Risk Officer, additional Portfolios may be created and additional Commodity Groups may be added within existing Portfolios, and the related limits will be created or revised accordingly. The President of Enron Corp. and the Enron Corp. Chief Risk Officer can authorize additional Positions within the existing Commodity Groups, provided that such Positions can be aggregated within the limits of a currently authorized Commodity Group.
- B. **Cross-Commodity Position Authorization.** If in the ordinary course of its business an Enron Business Unit or trading desk incurs an exposure to an underlying commodity or financial instrument for which it does not have explicit authority to carry, this exposure should be hedged internally with the appropriate Enron desk(s), with appropriate notification to the Chief Risk Officer or his designee(s). Hedge positions should be in instruments that have an observable correlation with the underlying exposure, and should be rebalanced regularly to substantially neutralize the underlying exposure.

Upon notification to the Chief Risk Officer or his designee(s), the Enron Business Unit Office of the Chairman who has authority for that commodity group may authorize a specific trader in a different commodity group to take speculative positions with other Enron trading desks in commodities and/or financial instruments other than those which that trader has explicit authority to trade (i.e. the Business Unit Office of the Chairman for North American Natural Gas may authorize a trader in the Coal group to trade gas with the North American Natural Gas desk). For limit monitoring purposes, these cross-commodity positions shall be captured by individual commodity to facilitate aggregation and reporting of Enron's consolidated exposure by commodity in the Daily Position Report (Coal desk's gas position will be aggregated with the North American Natural Gas commodity group.).

- C. **Position Measurement Parameters.** Any changes to parameters used in the aggregation and measurement of Positions must be approved by the Enron Corp. Chief Risk Officer or his designee(s). This includes, but is not limited to, the Benchmark Positions, VaR parameters, Maturity/Gap Risk periods, conversion ratios, volatility factors and correlation factors. Any substantive change as determined by the Chief Risk Officer will be communicated to Enron's Board at the next regularly scheduled Board of Directors' meeting.
- D. **Interim Policy for New Commodity Groups.** The President of Enron Corp. and the Chief Risk Officer of Enron Corp. may approve positions in new Commodity Group(s) prior to approval in the next meeting of the Enron Corp. Board of Directors, subject to the following criteria: (i) maximum VaR of \$1 million, along with corresponding position limits, and (ii) maximum initial term of six (6) months, subject to one extension for an additional term prior to review by the Board of Directors for permanent limits. These interim limits adjust the limit violation and loss notification requirements at the commodity group level until the granted limits expire, but they do not change the Aggregate VaR Limit. Interim limits shall be reported to the Enron Corp. Board of Directors at each regularly scheduled Board of Directors' meeting.
- E. **Discretionary VaR.** The President of Enron Corp. and Chief Risk Officer of Enron Corp. may allocate "Discretionary VaR" to the existing Commodity Groups listed in Appendix I, along with the corresponding adjustments to Net Open Position limits and Maturity/Gap Position limits, under the following guidelines: (i) allocation is limited to 100% of the existing commodity group VaR limit in

Appendix I, (ii) VaR allocation and corresponding adjustments to position limits adjust the limit violation and loss notification requirements at the commodity group level, (iii) nominal allocations of Discretionary VaR may exceed the amount listed in Appendix I due to portfolio diversification effect, as determined by the Chief Risk Officer or his designee(s), and (iv) term of allocation is determined by the Enron Corp. President and Chief Risk Officer. Discretionary VaR allocations are to be reported to the Enron Corp. Board of Directors at each regularly scheduled Board of Directors' meeting.

- F. **Temporary Limits.** The Board of Directors of Enron Corp. may from time to time approve temporary limits to encompass certain specific approved positions. These temporary limits adjust the limit violation and loss notification requirements at the commodity group level until the granted limits expire, but they do not change the Aggregate VaR Limit unless the Aggregate VaR Limit is specifically adjusted.
- G. **Limit Changes and Other Policy Amendments.** Any modification of limits or other amendments, supplements or updates to this Policy, unless otherwise covered by this Section VI, must be either approved by (i) the Enron Corp. Board of Directors, or (ii) the Enron Corp. President and Chief Risk Officer and ratified by the Enron Corp. Board of Directors at the next regularly scheduled Board of Directors' meeting.

VII. Miscellaneous

Employee Trading. No employee of any Enron Business Unit may engage in the trading of any Position for the benefit of any party other than an Enron Business Unit (whether for their own account or for the account of any third party) where such Position relates to (i) any financial instrument, security, financial asset or liability which falls within such employee's responsibility at an Enron Business Unit, or (ii) any other commodity not covered by (i) included in any Commodity Group.

Employee Review of Policies. As determined by the Chief Risk Officer or his designee(s), an employee of any Enron Business Unit participating in any activity or transaction within the coverage of this Policy shall sign on an annual basis or upon any material revision to this Policy, a statement approved by the Enron Corp. Chief Risk Officer that such employee (i) has read this Policy, (ii) understands this Policy, and (iii) has complied and will comply with this Policy.

Compliance with Policy. All Business Units and their employees should comply with this Policy. Dispensation for non-compliance should be sought from the President of Enron Corp., the Enron Corp. Chief Risk Officer or their designee(s). Willful or deliberate non-compliance or falsification of risk metrics or profits and losses referred to by this Policy will be regarded as gross misconduct.

Supersedes Prior Policies. This Policy supersedes and replaces all previous Policies of Enron Corp. approved by the Enron Corp. Board of Directors concerning risk management or trading. This Risk Management Policy was approved by the Enron Corp. Board of Directors on October 1, 1996, and as permitted hereunder it has been amended as of the date reflected on the first page hereof.

VIII. Definitions

"Aggregate VaR Limit" shall mean the total Enron Trading Portfolio VaR Limit as specified in Appendix I. Discretionary VaR allocation, and approval of Temporary VaR limits and Interim VaR limits do not

than or equal to ten percent (10%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the Chief Executive Officer of Enron Corp.

If the Aggregate VaR Limit is exceeded, the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the President of Enron Corp.. If the Aggregate VaR Limit is exceeded by greater than or equal to ten percent (10%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the Chief Executive Officer of Enron Corp.. If the Aggregate VaR Limit is exceeded by greater than or equal to fifteen percent (15%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to Chairman of the Board and to the Chairman of the Finance Committee of Enron Corp.

- C. **Loss Notifications.** The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the Enron Business Unit Office of the Chairman, the President of Enron Corp., or the Chief Executive Officer of Enron Corp., if a Daily Loss in any Commodity Group or Portfolio is equal to or in excess of 100%, 125%, or 150% of the corresponding VaR limit, respectively. The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the President of Enron Corp., the Chief Executive Officer of Enron Corp., or the Chairman of the Board or the Chairman of the Finance Committee of Enron Corp., if the aggregate Daily Loss is equal to or in excess of 50%, 75%, or 100% of the Aggregate VaR Limit, respectively.

The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the Enron Business Unit Office of the Chairman, the President of Enron Corp., or the Chief Executive Officer of Enron Corp. if a Cumulative 5-day Loss in any Commodity Group or Portfolio is equal to or in excess of 125%, 150%, or 175% of the corresponding VaR Limit, respectively. The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the President of Enron Corp. or the Chief Executive Officer of Enron Corp., if the aggregate Cumulative 5-day Loss is equal to or in excess of 75% or 100% of the corresponding VaR limit, respectively.

- D. **Reporting to the President of Enron Corp., and to the Chairman, Audit and Finance Committees of the Board of Directors.** Aggregate loss notifications and limit violations shall be communicated to the President of Enron Corp., the Chief Executive Officer of Enron Corp., the Chairman of the Board, and the Chairman of the Finance Committee of the Board of Directors of Enron Corp. by the Chief Risk Officer of Enron Corp., as specified in Section IV. of this policy, and as otherwise determined by the Chief Risk Officer. Aggregate loss notifications and a summary of limit violations, along with an analysis of Enron's market risks will be reported to the Audit Committee of the Board of Directors by the Chief Risk Officer of Enron Corp. at all regularly scheduled Audit Committee meetings.

V. Operations and Controls

- A. **Segregation of Duties.** Enron Business Units shall keep segregated from the business groups or individuals entering into Transactions each of the following activities: recording and aggregation of Transactions; preparation, issuance and verification of Enron Corp. or third-party documentation; reporting of Positions and Commodity Group information; review of the reasonableness of prices and models, periodic validation of prices from independent market sources; monitoring of limits; physical and/or financial settlement of Transactions; reconciliation of accounts; and preparation of financial statements.

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change the Aggregate VaR Limit unless the Aggregate VaR Limit is specifically adjusted by action of the Board of Directors.

"Benchmark Position" shall mean the Position within a Commodity Group into which all other Positions within the same Commodity Group can be converted using price volatility and correlation based conversion factors. Such conversion factors shall be established and authorized by the Enron Corp. Chief Risk Officer.

"Commodity Group" shall mean a collection of Positions having sufficient relationship and correlation (as approved by the Enron Corp. President and Enron Corp. Chief Risk Officer) that allow for aggregation into a Benchmark Position.

"Cross-Commodity Position" shall mean a Position within a certain Commodity Group that is not explicitly authorized as part of that Commodity Group. (i.e. Coal trading desk might hold a North American Natural Gas position as a hedge, or as a speculative position). The suitability and approval of Cross-Commodity Positions shall be reviewed and approved by the Business Unit Office of the Chairman of the Commodity Group specifically authorized to hold those Positions. Aggregation of risk components and profit or loss for all commodity groups will be reported on a consolidated basis in the Enron Daily Position Report.

"Cumulative 5-day Loss" shall mean a sum of daily profit and loss for the last consecutive five business days, either for any Commodity Group or for an aggregate loss in value of the trading portfolio. Upon occurrence of a Cumulative 5-day Loss limit notification or a Daily Loss limit notification reported in accordance with Section IV.C. of this policy, the Cumulative 5-day Loss calculation is reset. Daily profit and loss will be calculated using the mark-to-market method on a net present value basis, exclusive of non-trading type of originations and exclusive of prudence.

"Daily Loss" shall mean the loss in value of any Commodity Group or a loss in value of the trading portfolio in aggregate on a daily basis. The Daily Loss will be calculated using the mark-to-market method on a net present value basis, exclusive of non-trading type of originations and exclusive of prudence.

"Daily Position Report" shall mean a hard or soft copy report including, but not limited to the following, for each major commodity and price curve traded: Commodity Group Net Open Position, Maturity/Gap Position, profit or loss, potential exposure (VaR), and for all positions regardless of financial accounting treatment:

1. The amounts by which the mark-to-market value of the portfolio can change for small (or unit) changes in all "market parameters", as a term structure (i.e. by time "bucket") and on a net aggregate basis.
2. For portfolios with option or non-linear risks, the concentration of sensitivities (delta, gamma, vega) according to expiry date and strike price ("strike concentration").
3. The VaR for the portfolios, according to Enron's approved methodology.

The Daily Position Report shall also report the aggregated risk components (positions, VaR, and profit or loss) for approved Commodity Groups on a consolidated basis, without regard to which Enron Business Unit transacted, as discussed in Section VI.B. of this policy.

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"Discretionary VaR" shall mean the VaR capital specified in Appendix I approved by the Enron Board of Directors that may be periodically allocated by the Enron Corp. President and Enron Corp. Chief Risk Officer to permanent Commodity Groups listed in Appendix I as provided in Section VI. E. of this policy.

"Enron Business Unit(s)" shall mean Enron Corp. and any entity controlled, directly or indirectly, by Enron Corp., (including internal groups created for the purposes of trading, or aligned according to the commodities set out in the Appendices), or any entity directly or indirectly under common control of Enron Corp. For this purpose, the criteria for establishing "control" of any entity include but are not limited to, ownership of more than fifty percent (50%) of the voting power of such entity.

"Market Parameters" shall mean market spot and forward prices/curves, market spot and forward volatility, correlation (where appropriate), market interest rates, spot foreign exchange rates (where appropriate).

"Maturity/Gap Risk" shall mean the risks related to non-parallel changes of forward prices or interest rates. For purposes of this Policy, the Maturity/Gap Risk related to commodity Positions with forward prices shall be measured using a rolling total of the net open position per period, which may be modified based on the market structure of the underlying Position and pending authorization of the Chief Risk Officer of Enron Corp.

"Net Open Position" shall mean the aggregate of the open Positions in a Commodity Group on a Benchmark Position equivalent basis.

"Position" shall mean, collectively, the risk components (including, but not limited to, price risk, basis risk, index risk, credit risk and liquidity risk) of all products (commodities, financial instruments, securities, equities, financial assets or liabilities) which have been authorized for trading in the Enron Corp. Risk Management Policy, any of the Enron Corp. Policies or approved for trading through any amendments to this Policy.

"Transactions" shall mean, collectively, forwards, futures, swaps, options, or any combination of these instruments and any other derivative or cash market instruments creating a Position.

"Value-at-Risk" (VaR) shall mean the Potential Exposure related to a Commodity Group or Position representing the potential change in value resulting from changes including: market prices, interest rates, currency rates, counterparty credit condition, liquidity, funding and settlement risk, among others. VaR shall be calculated using the Enron Corp. adopted VaR methodology at the 95% confidence interval using a 1-day time horizon. Any recalibration or modification of the VaR methodology or parameters that take into account observed or anticipated changes in market factors or developments in VaR technologies must be approved by the Enron Corp. Chief Risk Officer or his designee(s).

APPENDIX I

Permanent Trading Limits (page 1 of 2):

| Commodity Group | Benchmark Position | Net Open Position Limit | Maturity / Gap Risk Limit | VaR Limit |
|--|--|---|--|-------------------------------------|
| TRADING PORTFOLIO | | | | \$125 MM |
| Discretionary VaR | | | | \$ 25 MM |
| | | | | |
| North American Electricity | North American Electricity Equivalents | 90 Twh | 25 Twh (Rolling 12-Month) | \$ 54 MM |
| North American Natural Gas | NYMEX Henry Hub Equivalents | 500 Bcf | 200 Bcf (Rolling 3-Month) | \$ 61 MM |
| Southern Cone Natural Gas | Southern Cone Natural Gas Equivalents | 35 Bcf | 20 Bcf (Rolling 12-Month) | \$ 2 MM |
| Southern Cone Electricity | Southern Cone Electricity Equivalents | 3.5 Twh | 3.5 Twh (Rolling 12-Month) | \$ 5 MM |
| | | | | |
| Metals & Minerals | LME Copper Futures Equivalents Metric Tonnes (MT) | 375,000 MT | 600,000 MT (Rolling 12-Month) | \$ 8 MM |
| European Natural Gas | UK Northern Balancing Point Gas Equivalents | 200 Bcf | 90 Bcf (Rolling 12-Month) | \$ 10 MM |
| UK Electricity | UK Electricity Equivalents | 60 Twh | 15 Twh (Rolling 12-Month) | \$ 30 MM |
| Continental Electricity | Continental Electricity Equivalents | 20 Twh | 20 Twh (Rolling 12-Month) | \$ 4 MM |
| Nordic Electricity | Nordic Electricity Equivalents | 20 Twh | 20 Twh (Rolling 12-Month) | \$ 5 MM |
| Australian Electricity | Australian Electricity Equivalents | 3 Twh | 6 Twh (Rolling 12-Month) | \$ 3 MM |
| Japanese Electricity | Japanese Electricity Equivalents | 4 Twh | 4 Twh (Rolling 12-Month) | \$ 4 MM |
| Credit Trading | Market Value in USD | \$750,000 / bp total, \$50,000 / bp individual | N/A | \$ 5 MM |
| | | | | |
| Global Products | NYMEX WTI Equivalents | 18 MM Bbl (EOL Crude - 2 Mil Bbl) | 19 Mil Bbl (Rolling 12-Month) (EOL Crude - 3 Mil Bbl) | \$ 15 MM EOL Crude - \$ 3 MM |
| LNG | LNG Equivalents | 9 Bcf | 12 Bcf (Rolling 12-Month) | \$ 5 MM |
| Weather Derivatives | EOL Equivalent Contracts | 40,000 EOL Contracts | N/A | \$ 4.5 MM |
| Coal | U.S. Eastern Coal Equivalents Metric Tonnes (MT) | 30 MM MT | 30 MM MT (Rolling 12-Month) | \$ 7 MM Vessel Trading - \$ 2 MM |
| Freight Markets Trading | Full Truckload (FTL) Equivalent Units | 83,000 FTL Units | 105,000 FTL Units (Rolling 12-Month) | \$ 2 MM |
| Emissions | SO2 Credits | 1,000,000 Credits | 1,000,000 Credits (Rolling 12-Month) | \$ 3 MM |
| Global Risk Markets Trading (1) | North American Electricity Equivalents | 300,000 Mwh | N/A | \$ 3 MM (1) |

- (1) Lifetime Capital at Risk (P95) Limit \$ 30 MM
Notional Maximum Loss (P95) Limit \$120 MM

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ENRON CORP.
RISK MANAGEMENT POLICY
Proprietary and Confidential

APPENDIX I

Permanent Trading Limits (page 2 of 2):

| Commodity Group | Benchmark Position | Net Open Position Limit | Maturity / Gap Risk Limit | VaR Limit |
|------------------------------|--|-------------------------|----------------------------------|-----------|
| | | | | \$ 5 MM |
| Financial Instruments | | | | - |
| Interest Rate | USD Notional Equivalent @ AA Libor | \$250,000 / bp | N/A | - |
| Foreign Currency | USD Spot Rate Notional Equivalents | \$150 MM | N/A | \$ 10 MM |
| Equity Trading | Market Value in USD | \$200 MM | N/A | \$ 2 MM |
| Convertible Arbitrage | Market Value in USD | \$150 MM | N/A | \$ 0.5 MM |
| Meats Trading | Futures Contract Equivalents | 750 Contracts | N/A | \$ 0.5 MM |
| Grain Trading | Futures Contract Equivalents | 750 Contracts | N/A | \$ 2 MM |
| Soft Commodities | Futures Contract Equivalents | 4,000 Contracts | N/A | |
| | | | | \$ 5 MM |
| Pulp & Paper | Pulpex NBSK (Pulp) Futures Equivalents Metric Tonnes (MT) | 0.5 MM MT | 500,000 MT (Rolling 12-Month) | \$ 0.5 MM |
| Lumber | Board Feet (BF) | 44 MM BF | 44 MM BF | \$ 5 MM |
| Steel | Hot Rolled Coil Steel Equivalents Metric Tonnes (MT) | 1.5 MM MT | 2.5 MM MT | |
| | | | | \$ 2 MM |
| | N/A | N/A | N/A | \$ 2 MM |
| Broadband | | | | |
| Advertising Swaps | New York A1849 PR Cost Per Point (CPP) | 28,000 Cost Per Point | 56,000 Cost Per Point | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| MERCHANT PORTFOLIO | Market Value in USD | N/A | N/A | N/A |
| | | | | \$ 10 MM |
| CAPITAL PORTFOLIO | | | | - |
| Enron Companies | Market Value in USD | \$300 MM | N/A | - |
| Other | S&P Equivalents | \$200 MM | N/A | |

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APPENDIX II

INTERIM POLICY TRADING LIMITS:

| Commodity Group | Benchmark Position | Net Open Position Limit | Maturity / Gap Risk Limit | VaR Limit | Expiration Limit |
|-----------------|-------------------------------|-----------------------------|-------------------------------|-----------|------------------|
| DRAM Chips | 128M SDRAM PC100 Equiv. Chips | 2 MM Benchmark Equiv. Chips | 1.5 MM Benchmark Equiv. Chips | \$1 MM | 11/15/01 |

DISCRETIONARY POLICY TRADING LIMITS:

Discretionary VaR is allocated among Commodity Groups frequently in accordance with the Policy and limits in Appendix I.

EC004403832

RISK MANAGEMENT POLICY

Approved by Enron Corp. Board of Directors

| | | |
|----------------------------|----------------------------|-----------------------------|
| Approved: October 1, 1996 | Amended: February 7, 2000 | Amended: February 13, 2001 |
| Amended: December 8, 1998 | Amended: May 2, 2000 | <u>Amended: May 1, 2001</u> |
| Amended: May 3, 1999 | Amended: August 8, 2000 | |
| Amended: August 10, 1999 | Amended: October 7, 2000 | |
| Amended: October 20, 1999 | Amended: December 12, 2000 | |
| Amended: December 14, 1999 | | |

I. General Authorization

Enron Corp. is authorized to execute Transactions and manage these Transactions within certain authorized Portfolios in support of its businesses.

All Transactions covered by this policy must be conducted in compliance with all Enron Corp. policies, as each may be amended, supplemented or restated from time to time (collectively the "Enron Corp. Policies").

II. Portfolios

Designated Enron Business Units are authorized to enter into Transactions which create Positions for Enron Corp. and its affiliates, other Enron Business Units or their respective customers within the authorized Commodity Groups and limits, specified in the Appendices. These Positions are managed in the following Portfolios:

- A. **Trading Portfolio** – designed to capture and manage risks related to physical delivery of energy and other commodities, to provide related risk management services, to take advantage of market arbitrage opportunities and to manage positions within the approved limits. This portfolio includes commodity transactions, financial instruments and securities transactions.
- B. **Merchant Portfolio** – designed to capture and manage merchant investments in public and private companies, including the active management of embedded exposures and to provide greater liquidity for Enron's merchant investment activities, consistent with Enron Corp.'s core competencies within the approved limits. This portfolio includes equity, "equity-like," debt and "debt-like" investments in the public and private sector.
- C. **Capital Portfolio** – designed to accommodate positions and transactions in Enron's own stock or derivatives thereof which may occur from time to time in the execution of approved structural transactions (for example, stock buy-backs, hedging of stock option programs, etc.).

III. Limit Structure

Generally, Enron Business Units' business activities are subject to a combination of limits. These limits include, but are not limited to: Net Open Position, Maturity/Gap Risk, Potential Exposure (VaR), Regulated Exchange Limits, and Loss Notifications, as appropriate for the type of business activity under consideration.

Limits will be applied at the Commodity Group and Portfolio level, as appropriate and monitored daily. Unless specifically allocated to a business unit for a basket of products, these limits are to be applied against Enron's consolidated position on an individual commodity group basis.

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- A. **Net Open Position Limits.** Enron Business Units' activities are subject to the Net Open Position limits at the Commodity Group level, as specified in the Appendices. For purposes of monitoring the Net Open Position Limits, all Positions within a Commodity Group shall be aggregated into a reference Benchmark Position assigned to each group.
- B. **Maturity/Gap Risk Limits.** Enron Business Units' activities are subject to the Maturity/Gap Risk limits at the Commodity Group level, as specified in the Appendices. For purposes of monitoring the Maturity/Gap Risk Limits, all Positions within a Commodity Group shall be aggregated into a reference Benchmark Position assigned to each group.
- C. **Potential Exposure Limits.** Enron Business Units' activities are subject to potential exposure analysis using stress-testing and scenario analysis, as directed by the Enron Corp. Chief Risk Officer, and limits based on Value-at-Risk (VaR), as specified in the Appendices, calculated daily or as appropriate to the business activity under consideration at the Portfolio level and at the Commodity Group level.
- D. **Regulated Exchange Limits.** Enron Business Units may be subject to limits imposed by regulated exchanges on which they transact. Enron Business Units shall comply with any such limits imposed on them, as such limits may be modified from time to time.
- E. **Loss Notifications.** Daily Losses and Cumulative 5-day Losses resulting from Enron Business Units' activities are subject to the reporting requirements specified in Section IV.C.

All Enron Business Units are expected to formulate limits subordinate to limits specified in the Appendices, and such sub-limits should be monitored internally and act as triggers for reference to and action by senior Enron Business Unit management.

IV. Limit Violation/Loss Notification Requirements

Notwithstanding the other provisions of this Policy, any violation of limits must be reported to the Enron Corp. Chief Risk Officer. This limit violation report should be made to the Chief Risk Officer by the Enron Business unit prior to entering into a Transaction if there is a sufficient reason to believe that a limit violation will occur. Requirements for reporting limit violations and loss notifications, each accompanied by an explanation, as follows:

- A. **Net Open Position Limits; Maturity/Gap Risk Limits.** If the limit violation exceeds the applicable limit by greater than or equal to five percent (5%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the Enron Business Unit Office of the Chairman and to the President of Enron Corp. If the limit violation exceeds the applicable limit by greater than or equal to ten percent (10%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the ~~Chairman~~ Chief Executive Officer of Enron Corp.
- B. **Value-at-Risk Limits.** If the VaR for any Commodity Group or Portfolio exceeds the applicable limit by greater than or equal to five percent (5%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the Enron Business Unit Office of the Chairman and to the President of Enron Corp. If the VaR for any Commodity Group or Portfolio exceeds the applicable limit by greater

than or equal to ten percent (10%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the ~~Chairman~~Chief Executive Officer of Enron Corp.

If the Aggregate VaR Limit is exceeded, the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the President of Enron Corp.. If the Aggregate VaR Limit is exceeded by greater than or equal to ten percent (10%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to the ~~Chairman~~Chief Executive Officer of Enron Corp.. If the Aggregate VaR Limit is exceeded by greater than or equal to fifteen percent (15%), the Enron Corp. Chief Risk Officer shall ensure the prompt communication of the occurrence to Chairman of the Board and to the Chairman of the Finance Committee of Enron Corp.

- C. **Loss Notifications.** The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the Enron Business Unit Office of the Chairman, the President of Enron Corp., or the ~~Chairman~~Chief Executive Officer of Enron Corp., if a Daily Loss in any Commodity Group or Portfolio is equal to or in excess of 100%, 125%, or 150% of the corresponding VaR limit, respectively. The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the President of Enron Corp., the ~~Chairman~~Chief Executive Officer of Enron Corp., or the Chairman of the Board or the Chairman of the Finance Committee of Enron Corp., if the aggregate Daily Loss is equal to or in excess of 50%, 75%, or 100% of the Aggregate VaR Limit, respectively.

The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the Enron Business Unit Office of the Chairman, the President of Enron Corp., or the ~~Chairman~~Chief Executive Officer of Enron Corp. if a Cumulative 5-day Loss in any Commodity Group or Portfolio is equal to or in excess of 125%, 150%, or 175% of the corresponding VaR Limit, respectively. The Enron Corp. Chief Risk Officer shall ensure the prompt communication to the President of Enron Corp. or the ~~Chairman~~Chief Executive Officer of Enron Corp., if the aggregate Cumulative 5-day Loss is equal to or in excess of 75% or 100% of the corresponding VaR limit, respectively.

- D. **Reporting to the President of Enron Corp., and to the Chairman, Audit and Finance Committees of the Board of Directors.** Aggregate loss notifications and limit violations shall be communicated to the President of Enron Corp., the Chief Executive Officer of Enron Corp., the ~~Chairman of Enron Corp.~~ the Board, and the Chairman of the Finance Committee of the Board of Directors of Enron Corp. by the Chief Risk Officer of Enron Corp., as specified in Section IV. of this policy, and as otherwise determined by the Chief Risk Officer. Aggregate loss notifications and a summary of limit violations, along with an analysis of Enron's market risks will be reported to the Audit Committee of the Board of Directors by the Chief Risk Officer of Enron Corp. at all regularly scheduled Audit Committee meetings.

V. Operations and Controls

- A. **Segregation of Duties.** Enron Business Units shall keep segregated from the business groups or individuals entering into Transactions each of the following activities: recording and aggregation of Transactions; preparation, issuance and verification of Enron Corp. or third-party documentation; reporting of Positions and Commodity Group information; review of the reasonableness of prices and models, periodic validation of prices from independent market sources; monitoring of limits; physical and/or financial settlement of Transactions; reconciliation of accounts; and preparation of financial statements.

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- B. **Position Reporting.** Designated Enron Business Units shall prepare, distribute and make available data constituting a daily report ("Daily Position Report") including Commodity Group Net Open Position, Maturity/Gap Position, profit or loss, potential exposure (VaR) and any other parameters as may be required by the President or the Chief Risk Officer of Enron Corp. The Daily Position Reports at the Commodity Group level will also report various limits compared to their respective actual amounts and will be signed off by the Commodity Group Manager of the position(s) and the head of the commercial support group responsible for their preparation, before any subsequent trading occurs.

For purposes of limit monitoring and aggregation of Enron's consolidated trading results, Enron's consolidated Daily Position Report should include the Net Open Position, Maturity/Gap Position, profit or loss, and potential exposure (VaR) for approved Commodity Groups consolidated across the company without regard to which business unit undertook the trading activity. In those instances where limits are granted to a business unit for a basket of commodities, reporting for individual commodity risk books shall be maintained to facilitate aggregation of Enron's actual consolidated commodity specific exposure. Management reporting may separately provide business unit sub-limit monitoring and trading results aggregated according to management lines.

The President of Enron Corp. and Enron Corp. Chief Risk Officer shall designate individuals who are authorized to approve the Daily Position Report on behalf of Enron Corp. After approval, a consolidated Daily Position Report shall be distributed to the Chairman, the President, the Chief Accounting Officer, the Chief Risk Officer of Enron Corp. and others as designated by the President or the Chief Risk Officer of Enron Corp.

- C. **Stress and Scenario Testing.** On a monthly basis, or as markets dictate, designated Enron Business Units shall formulate and examine the effects of extreme changes in the market parameters relevant to exposures and positions. Results of these tests should be made available to the Enron Corp. Chief Risk Officer, or his designee(s).
- D. **Valuation.** On a monthly basis, or as markets dictate, designated Enron Business Units shall provide evidence of verification of all market parameters used in the calculation of risk metrics and profits and losses. This should be made available to the Enron Corp. Chief Risk Officer, or his designee(s).
- E. **Transaction Approval and Execution.** Only those employees designated by the Enron Corp. Chief Risk Officer or his designee(s) will be authorized to enter into Transactions on behalf of Enron. The Chief Risk Officer must also maintain a record of those employees responsible for the individual Commodity Groups (Commodity Group Manager) as specified in the Appendices. Individuals will be assigned as commodity leaders to manage Enron's aggregate position across the company as determined necessary by the Chief Risk Officer. All Transactions must be entered into in compliance with current policies of the Credit Group, Market Risk Management Group, and other relevant groups, as determined by the Enron Corp. Chief Risk Officer. All trades executed on the telephone must be executed on telephones that are recorded electronically.
- F. **Brokerage Accounts.** Designated Enron Business Units periodically open trading accounts with clearing brokers to facilitate the conduct of their business. All openings or revisions of trading accounts with a broker or brokers will be reviewed and approved by the Enron Corp. Chief Risk Officer or his designee(s). The Enron Corp. Chief Risk Officer or his designee(s) will also notify the brokers of the names of personnel authorized to trade futures, options or other contracts on regulated exchanges.

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VI. Policy Amendment Authority

- A. **Portfolios, Commodity Groups and Positions.** Subject to the authorization of the Board of Directors, the Enron Corp. Chairman, the President of Enron Corp. and the Enron Corp. Chief Risk Officer, additional Portfolios may be created and additional Commodity Groups may be added within existing Portfolios, and the related limits will be created or revised accordingly. The President of Enron Corp. and the Enron Corp. Chief Risk Officer can authorize additional Positions within the existing Commodity Groups, provided that such Positions can be aggregated within the limits of a currently authorized Commodity Group.

- B. **Cross-Commodity Position Authorization.** If in the ordinary course of its business an Enron Business Unit or trading desk incurs an exposure to an underlying commodity or financial instrument for which it does not have explicit authority to carry, this exposure should be hedged internally with the appropriate Enron desk(s), with appropriate notification to the Chief Risk Officer or his designee(s). Hedge positions should be in instruments that have an observable correlation with the underlying exposure, and should be rebalanced regularly to substantially neutralize the underlying exposure.

Upon notification to the Chief Risk Officer or his designee(s), the Enron Business Unit Office of the Chairman who has authority for that commodity group may authorize a specific trader in a different commodity group to take speculative positions with other Enron trading desks in commodities and/or financial instruments other than those which that trader has explicit authority to trade (i.e. the Business Unit Office of the Chairman for North American Natural Gas may authorize a trader in the Coal group to trade gas with the North American Natural Gas desk). For limit monitoring purposes, these cross-commodity positions shall be captured by individual commodity to facilitate aggregation and reporting of Enron's consolidated exposure by commodity in the Daily Position Report (Coal desk's gas position will be aggregated with the North American Natural Gas commodity group.).

- C. **Position Measurement Parameters.** Any changes to parameters used in the aggregation and measurement of Positions must be approved by the Enron Corp. Chief Risk Officer or his designee(s). This includes, but is not limited to, the Benchmark Positions, VaR parameters, Maturity/Gap Risk periods, conversion ratios, volatility factors and correlation factors. Any substantive change as determined by the Chief Risk Officer will be communicated to Enron's Board at the next regularly scheduled Board of Directors' meeting.
- D. **Interim Policy for New Commodity Groups.** The President of Enron Corp. and the Chief Risk Officer of Enron Corp. may approve positions in new Commodity Group(s) prior to approval in the next meeting of the Enron Corp. Board of Directors, subject to the following criteria: (i) maximum VaR of \$1 million, along with corresponding position limits, and (ii) maximum initial term of six (6) months, subject to one extension for an additional term prior to review by the Board of Directors for permanent limits. These interim limits adjust the limit violation and loss notification requirements at the commodity group level until the granted limits expire, but they do not change the Aggregate VaR Limit. Interim limits shall be reported to the Enron Corp. Board of Directors at each regularly scheduled Board of Directors' meeting.
- E. **Discretionary VaR.** The President of Enron Corp. and Chief Risk Officer of Enron Corp. may allocate "Discretionary VaR" to the existing Commodity Groups listed in Appendix I, along with the corresponding adjustments to Net Open Position limits and Maturity/Gap Position limits, under the following guidelines: (i) allocation is limited to 100% of the existing commodity group VaR limit in

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Appendix I, (ii) VaR allocation and corresponding adjustments to position limits adjust the limit violation and loss notification requirements at the commodity group level, (iii) nominal allocations of Discretionary VaR may exceed the amount listed in Appendix I due to portfolio diversification effect, as determined by the Chief Risk Officer or his designee(s), and (iv) term of allocation is determined by the Enron Corp. President and Chief Risk Officer. Discretionary VaR allocations are to be reported to the Enron Corp. Board of Directors at each regularly scheduled Board of Directors' meeting.

- F. **Temporary Limits.** The Board of Directors of Enron Corp. may from time to time approve temporary limits to encompass certain specific approved positions. These temporary limits adjust the limit violation and loss notification requirements at the commodity group level until the granted limits expire, but they do not change the Aggregate VaR Limit unless the Aggregate VaR Limit is specifically adjusted.
- G. **Limit Changes and Other Policy Amendments.** Any modification of limits or other amendments, supplements or updates to this Policy, unless otherwise covered by this Section VI, must be either approved by (i) the Enron Corp. Board of Directors, or (ii) the Enron Corp. President and Chief Risk Officer and ratified by the Enron Corp. Board of Directors at the next regularly scheduled Board of Directors' meeting.

VII. Miscellaneous

Employee Trading. No employee of any Enron Business Unit may engage in the trading of any Position for the benefit of any party other than an Enron Business Unit (whether for their own account or for the account of any third party) where such Position relates to (i) any financial instrument, security, financial asset or liability which falls within such employee's responsibility at an Enron Business Unit, or (ii) any other commodity not covered by (i) included in any Commodity Group.

Employee Review of Policies. As determined by the Chief Risk Officer or his designee(s), an employee of any Enron Business Unit participating in any activity or transaction within the coverage of this Policy shall sign on an annual basis or upon any material revision to this Policy, a statement approved by the Enron Corp. Chief Risk Officer that such employee (i) has read this Policy, (ii) understands this Policy, and (iii) has complied and will comply with this Policy.

Compliance with Policy. All Business Units and their employees should comply with this Policy. Dispensation for non-compliance should be sought from the President of Enron Corp., the Enron Corp. Chief Risk Officer or their designee(s). Willful or deliberate non-compliance or falsification of risk metrics or profits and losses referred to by this Policy will be regarded as gross misconduct.

Supersedes Prior Policies. This Policy supersedes and replaces all previous Policies of Enron Corp. approved by the Enron Corp. Board of Directors concerning risk management or trading. This Risk Management Policy was approved by the Enron Corp. Board of Directors on October 1, 1996, and as permitted hereunder it has been amended as of the date reflected on the first page hereof.

VIII. Definitions

"Aggregate VaR Limit" shall mean the total Enron Trading Portfolio VaR Limit as specified in Appendix I. Discretionary VaR allocation, and approval of Temporary VaR limits and Interim VaR limits do not change the Aggregate VaR Limit unless the Aggregate VaR Limit is specifically adjusted by action of the Board of Directors.

"Benchmark Position" shall mean the Position within a Commodity Group into which all other Positions within the same Commodity Group can be converted using price volatility and correlation based conversion factors. Such conversion factors shall be established and authorized by the Enron Corp. Chief Risk Officer.

"Commodity Group" shall mean a collection of Positions having sufficient relationship and correlation (as approved by the Enron Corp. President and Enron Corp. Chief Risk Officer) that allow for aggregation into a Benchmark Position.

"Cross-Commodity Position" shall mean a Position within a certain Commodity Group that is not explicitly authorized as part of that Commodity Group. (i.e. Coal trading desk might hold a North American Natural Gas position as a hedge, or as a speculative position). The suitability and approval of Cross-Commodity Positions shall be reviewed and approved by the Business Unit Office of the Chairman of the Commodity Group specifically authorized to hold those Positions. Aggregation of risk components and profit or loss for all commodity groups will be reported on a consolidated basis in the Enron Daily Position Report.

"Cumulative 5-day Loss" shall mean a sum of daily profit and loss for the last consecutive five business days, either for any Commodity Group or for an aggregate loss in value of the trading portfolio. Upon occurrence of a Cumulative 5-day Loss limit notification or a Daily Loss limit notification reported in accordance with Section IV.C. of this policy, the Cumulative 5-day Loss calculation is reset. Daily profit and loss will be calculated using the mark-to-market method on a net present value basis, exclusive of non-trading type of originations and exclusive of prudence.

"Daily Loss" shall mean the loss in value of any Commodity Group or a loss in value of the trading portfolio in aggregate on a daily basis. The Daily Loss will be calculated using the mark-to-market method on a net present value basis, exclusive of non-trading type of originations and exclusive of prudence.

"Daily Position Report" shall mean a hard or soft copy report including, but not limited to the following, for each major commodity and price curve traded: Commodity Group Net Open Position, Maturity/Gap Position, profit or loss, potential exposure (VaR), and for all positions regardless of financial accounting treatment:

1. The amounts by which the mark-to-market value of the portfolio can change for small (or unit) changes in all "market parameters", as a term structure (i.e. by time "bucket") and on a net aggregate basis.
2. For portfolios with option or non-linear risks, the concentration of sensitivities (delta, gamma, vega) according to expiry date and strike price ("strike concentration").
3. The VaR for the portfolios, according to Enron's approved methodology.

The Daily Position Report shall also report the aggregated risk components (positions, VaR, and profit or loss) for approved Commodity Groups on a consolidated basis, without regard to which Enron Business Unit transacted, as discussed in Section VI.B. of this policy.

"Discretionary VaR" shall mean the VaR capital specified in Appendix I approved by the Enron Board of Directors that may be periodically allocated by the Enron Corp. President and Enron Corp. Chief Risk Officer to permanent Commodity Groups listed in Appendix I as provided in Section VI. E. of this policy.

"Enron Business Unit(s)" shall mean Enron Corp. and any entity controlled, directly or indirectly, by Enron Corp., (including internal groups created for the purposes of trading, or aligned according to the commodities set out in the Appendices), or any entity directly or indirectly under common control of Enron Corp. For this purpose, the criteria for establishing "control" of any entity include but are not limited to, ownership of more than fifty percent (50%) of the voting power of such entity.

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"Market Parameters" shall mean market spot and forward prices/curves, market spot and forward volatility, correlation (where appropriate), market interest rates, spot foreign exchange rates (where appropriate).

"Maturity/Gap Risk" shall mean the risks related to non-parallel changes of forward prices or interest rates. For purposes of this Policy, the Maturity/Gap Risk related to commodity Positions with forward prices shall be measured using a rolling total of the net open position per period, which may be modified based on the market structure of the underlying Position and pending authorization of the Chief Risk Officer of Enron Corp.

"Net Open Position" shall mean the aggregate of the open Positions in a Commodity Group on a Benchmark Position equivalent basis.

"Position" shall mean, collectively, the risk components (including, but not limited to, price risk, basis risk, index risk, credit risk and liquidity risk) of all products (commodities, financial instruments, securities, equities, financial assets or liabilities) which have been authorized for trading in the Enron Corp. Risk Management Policy, any of the Enron Corp. Policies or approved for trading through any amendments to this Policy.

"Transactions" shall mean, collectively, forwards, futures, swaps, options, or any combination of these instruments and any other derivative or cash market instruments creating a Position.

"Value-at-Risk" (VaR) shall mean the Potential Exposure related to a Commodity Group or Position representing the potential change in value resulting from changes including: market prices, interest rates, currency rates, counterparty credit condition, liquidity, funding and settlement risk, among others. VaR shall be calculated using the Enron Corp. adopted VaR methodology at the 95% confidence interval using a 1-day time horizon. Any recalibration or modification of the VaR methodology or parameters that take into account observed or anticipated changes in market factors or developments in VaR technologies must be approved by the Enron Corp. Chief Risk Officer or his designee(s).

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APPENDIX I

Permanent Trading Limits (page 1 of 2):

| Commodity Group | Benchmark Position | Net Open Position Limit | Maturity / Gap Risk Limit | VaR Limit |
|--|---|---|--|---|
| TRADING PORTFOLIO | | | | \$125 MM |
| Discretionary VaR | | | | \$25 MM |
| North American Electricity | North American Electricity Equivalents | 90 Twh | 25 Twh (Rolling 12-Month) | \$54 MM |
| North American Natural Gas | NYMEX Henry Hub Equivalents | 500 Bcf | 200 Bcf (Rolling 3-Month) | \$61 MM |
| Southern Cone Natural Gas | Southern Cone Natural Gas Equivalents | 35 Bcf | 20 Bcf (Rolling 12-Month) | \$2 MM |
| Southern Cone Electricity | Southern Cone Electricity Equivalents | 3.5 Twh | 3.5 Twh (Rolling 12-Month) | \$5 MM |
| Metals & Minerals | LME Copper Futures Equivalents- Metric Tonnes (MT) | 375,000 MT | 600,000 MT (Rolling 12-Month) | \$8 MM |
| European Natural Gas | UK Northern Balancing Point Gas Equivalents | 200 Bcf | 90 Bcf (Rolling 12-Month) | \$10 MM |
| UK Electricity (+) | UK Electricity Equivalents | 35-60 Twh (+) | 15 Twh (Rolling 12-Month) | \$40-30 MM (+) |
| Continental Electricity | Continental Electricity Equivalents | 20 Twh | 20 Twh (Rolling 12-Month) | \$4 MM |
| Nordic Electricity | Nordic Electricity Equivalents | 20 Twh | 20 Twh (Rolling 12-Month) | \$5 MM |
| Australian Electricity | Australian Electricity Equivalents | 3 Twh | 6 Twh (Rolling 12-Month) | \$3 MM |
| Japanese Electricity | Japanese Electricity Equivalents | 4 Twh | 4 Twh (Rolling 12-Month) | \$4 MM |
| Credit Trading | Market Value in USD | \$750,000 EW04 /bp total, \$50,000 EW04 /bp individual | N/A | \$5 MM |
| Global Products | NYMEX WTI Equivalents | 18 Mil-MM Bbl (EOL Crude - 2 Mil Bbl) | 19 Mil Bbl (Rolling 12-Month) (EOL Crude - 3 Mil Bbl) | \$15 MM (EOL Crude - \$3 MM) |
| LNG | LNG Equivalents | 9 Bcf | 12 Bcf (Rolling 12-Month) | \$5 MM |
| Weather Derivatives | Maximum USD Exposure EOL Equivalent Contracts | 40,000 EOL equiv- Contracts | N/A | \$4.5 MM |
| Coal & Freight | U.S. Eastern Coal Equivalents Metric Tonnes (MT) | 30 MM MT | 30 MM MT (Rolling 12-Month) | \$7 MM (Freight Vessel Trading- \$2 MM) |
| Freight Markets Trading | Full Truckload (FTL) Equivalent Units | 83,000 FTL Units | 105,000 FTL Units (Rolling 12-Month) | <u>\$2 MM</u> |
| Emissions | SO2 Credits | 1,000,000 Credits | 1,000,000 Credits (Rolling 12-Month) | \$3 MM |
| Global Risk Markets Trading (1) | North American Electricity Equivalents | 300,000 Mwh | N/A | <u>\$3 MM (1)</u> |

(+) See Temporary Limits - Appendix H

(1) Lifetime Capital at Risk (P95) Limit \$ 30 MM
Notional Maximum Loss (P95) Limit \$120 MM

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APPENDIX I

Permanent Trading Limits (page 2 of 2):

| Commodity Group | Benchmark Position | Net Open Position Limit | Maturity / Gap Risk Limit | VaR Limit |
|--|--|-------------------------------------|--------------------------------------|---------------------------------|
| Financial Instruments | | | | \$5 MM |
| Interest Rate | USD Notional Equivalent @ AA Libor | \$250,000 / bp | N/A | - |
| Foreign Currency | USD Spot Rate Notional Equivalents | \$150 MM | N/A | - |
| Equity Trading | Market Value in USD | \$200 MM | N/A | \$10 MM |
| Convertible Arbitrage | Market Value in USD | \$150 MM | N/A | \$2 MM |
| Meats Trading | Futures Contract Equivalents | 750 Contracts | N/A | \$0.5 MM |
| Grain Trading | Futures Contract Equivalents | 750 Contracts | N/A | \$0.5 MM |
| Soft Commodities | Futures Contract Equivalents | 4,000 Contracts | N/A | \$2 MM |
| Pulp & Paper | Pulpex NBSK (Pulp) Futures Equivalents Metric Tonnes (MT) | 500,000 0.5 MM MT | 500,000 MT (Rolling 12-Month) | \$5 MM |
| Lumber | Board Feet (BF) | 44 MM BF | 44 MM BF | \$0.5 MM 500,000 |
| Steel | Hot Rolled Coil Steel Equivalents Metric Tonnes (MT) | 1.5 MM MT | 2.5 MM MT | \$5 MM |
| Broadband | N/A | N/A | N/A | \$2 MM |
| Advertising Swaps | New York A1849 PR Cost Per Point (CPP) | 28,000 54 Cost Per Point | 56,000 108 Cost Per Point | \$2 MM |
| EES sub-limit (North American Electricity and North American Natural Gas) | | | | \$5MM (sub-limit) |
| MERCHANT PORTFOLIO | Market Value in USD | N/A | N/A | N/A |
| CAPITAL PORTFOLIO | | | | \$10 MM |
| Enron Companies | Market Value in USD | \$300 MM | N/A | - |
| Other | S&P Equivalents | \$200 MM | N/A | - |

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APPENDIX II

INTERIM POLICY TRADING LIMITS:

| Commodity Group | Benchmark Position | Net Open Position Limit | Maturity / Gap Risk Limit | VaR Limit | Expiration Limit |
|-----------------|-------------------------------|-----------------------------|-------------------------------|-----------|------------------|
| DRAM Chips | 128M SDRAM PC100 Equiv. Chips | 2 MM Benchmark Equiv. Chips | 1.5 MM Benchmark Equiv. Chips | \$1 MM | 5/1/15/01 |

TEMPORARY POLICY TRADING LIMITS:

| Commodity Group | Benchmark Position | Net Open Position Limit | Maturity / Gap Risk Limit | VaR Limit | Expiration Date |
|-----------------|----------------------------|-------------------------|---------------------------|--------------|-----------------|
| UK Electricity | UK Electricity Equivalents | 85 Twh (1) | 15 Twh (Rolling 12-Month) | —\$18 MM (1) | (1) |

(1) Limit amortization schedule for UK Electricity:

| | NOP | VaR |
|---------|----------|--|
| 7/1/00 | 76.5 Twh | \$16.65 MM |
| 10/1/00 | 68.0 Twh | \$15.30 MM |
| 1/1/01 | 59.5 Twh | \$13.95 MM |
| 4/1/01 | 51.0 Twh | \$12.60 MM |
| 7/1/01 | 42.5 Twh | \$11.25 MM |
| 10/1/01 | 35.0 Twh | \$10.00 MM (permanent limits per Appendix I) |

DISCRETIONARY POLICY TRADING LIMITS:

Discretionary VaR is allocated among Commodity Groups frequently in accordance with the Policy and limits in Appendix I.

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Agenda Item 5b



Transaction Approval Process

EC004403846

5B - 1

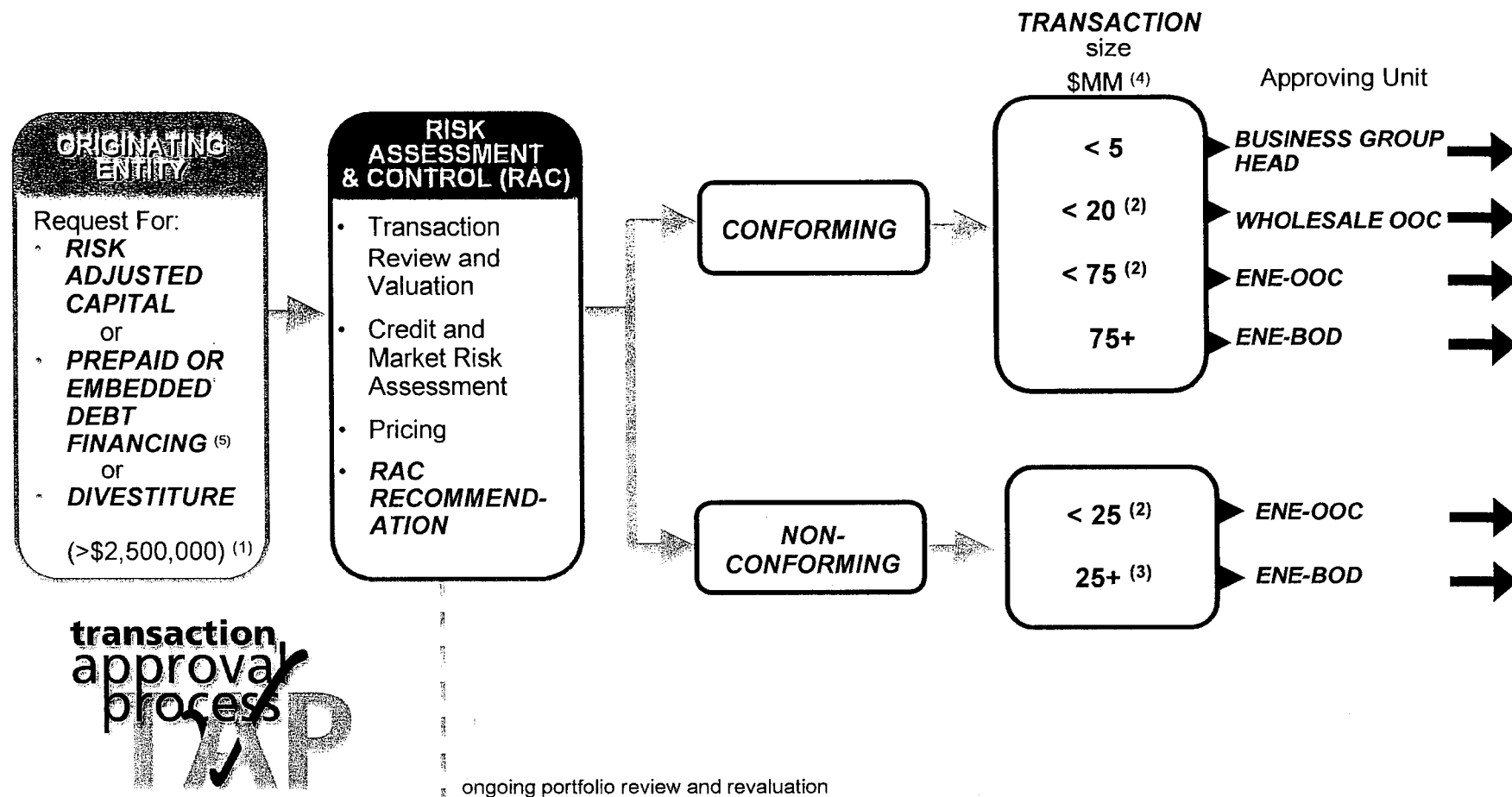
Summary of Significant Changes

- In an effort to reduce Board approval of revisions to the Transaction Approval Process due solely to personnel or organizational changes, a modification to grant approval authority to holders of certain executive positions is recommended. The Chief Risk Officer will maintain an incumbency certificate with the holders of such executive positions.
- Added approval authority for certain business unit Chief Operating Officers
- All remaining changes are non-substantive, but provide further clarification to the Transaction Approval Process.

EC004403847

Transaction Approval Process

REVISED 5/1/01



⁽¹⁾ Except **NON-CONFORMING** transactions and venture capital transactions not authorized by the Company's charter, for both of which the limit is \$500,000.

⁽²⁾ Deal Approval Sheets approved by the **WHOLESALE OOC** and **ENE-OOC** will be distributed to the **ENE-BOD** (Finance Committee) after approval.

⁽³⁾ Transactions deemed **NON-CONFORMING** only due to **RAC RECOMMENDATION** being "Returns Below Capital Price" will NOT require **ENE-BOD** approval if < \$75MM.

⁽⁴⁾ Merchant asset **DIVESTITURES** exceeding \$500MM and strategic asset **DIVESTITURES** exceeding \$200MM require **ENE-BOD** approval.

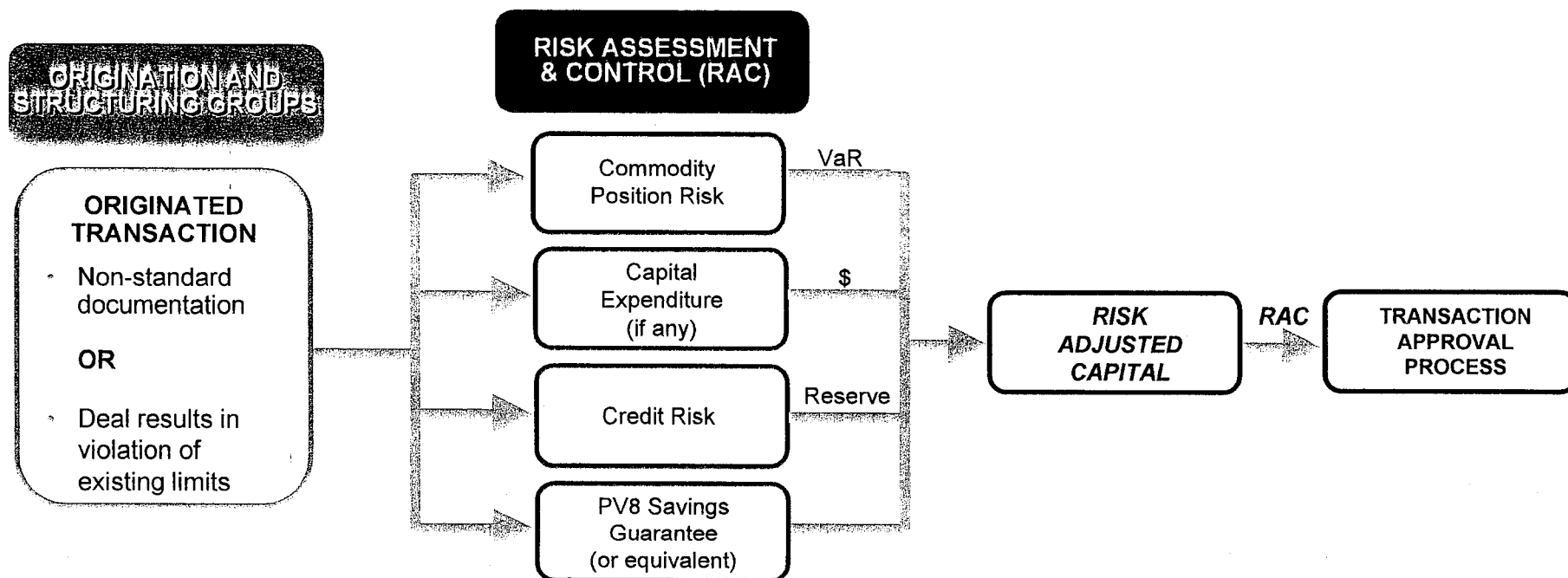
⁽⁵⁾ Transactions meeting certain criteria may be approved under the E-DASH process of the Transaction Approval Process, see page 5B-5.

DEFINED TERMS IN ITALICS

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Approval Process for Originated Contractual Transactions



EC004403849

E-DASH Process ⁽¹⁾

PREPAID OR EMBEDDED DEBT FINANCING

REVISED 5/1/01

| Rating Minimum ⁽²⁾ | Approval Amount and Maturity | | | | | |
|----------------------------------|------------------------------|------------|------------|------------|------------|---------|
| | <= \$5MM | <= \$10MM | <= \$15MM | <= \$20MM | <= \$25MM | >\$25MM |
| AAA-/Aaa3 | <= 7 years | <= 7 years | <= 5 years | <= 5 years | <= 5 years | DASH |
| AA-/Aa3 | <= 6 years | <= 5 years | <= 4 years | <= 3 years | DASH | DASH |
| A-/A3 | <= 5 years | <= 3 years | <= 2 years | DASH | DASH | DASH |
| BBB+/Baa1 | <= 4 years | <= 2 years | DASH | DASH | DASH | DASH |
| BBB/Baa2 | <= 3 years | DASH | DASH | DASH | DASH | DASH |
| BBB-/Baa3 | <= 1 year | DASH | DASH | DASH | DASH | DASH |
| BB-/Ba3 | <= 6 months | DASH | DASH | DASH | DASH | DASH |
| B+/B1 or lower or unrated | <= 3 months | DASH | DASH | DASH | DASH | DASH |

TRANSACTION
APPROVAL
PROCESS

Example Transactions Include:

- Prepays
- Tilted swaps or other transactions where debt financing of a counterparty is embedded in a trading / risk management transaction

⁽¹⁾ Approval to be documented in an Expedited DASH ("E-DASH") and approved by EGF, **RAC**, and **BUSINESS GROUP HEADS** only.

⁽²⁾ In the case of split-rated entities, the lowest applicable rating level shall apply (e.g., an A+/A2 counterparty is classified as A-/A3 or higher and a BBB-/Ba2 counterparty is classified as BB/Ba2 or higher)

Approval Authority

REVISED 5/1/01

| | CONFORMING LIMIT | NON-CONFORMING LIMIT | | |
|---|---------------------|-------------------------|---|------------------------|
| ENE-BOD | 75+ | 25+ | Enron Corp. Board of Directors (Executive Committee between Board Meetings) | |
| ENE-OOC | < 75 | < 25 | Enron Corp. Office of the Chairman | |
| WHOLESALE OOC | < 20 | N/A | Chairman & CEO President & COO | |
| BUSINESS GROUP HEADS (WHOLESALE) | < 5 | N/A | Enron Americas | President & CEO COO |
| | | | Enron Europe | President & CEO COO |
| | | | Enron Global Markets | President & CEO COO |
| | | | Enron Industrial Markets | President & CEO COO |
| | | | Enron Global Assets | President & CEO COO |
| BUSINESS GROUP HEADS (OTHER) | < 5 | N/A | Enron Energy Services | Chairman & CEO COO |
| | | | Enron Broadband Services | CEO President & COO |
| | | | Enron Global Finance | CFO |
| | | | Enron Transportation & Services | Chairman & CEO |
| | | | Enron Xcelerator | Chairman & CEO |

The **ENE-OOC** has authority to suspend or revoke approval privileges.

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Incumbency Certificate

REVISED 5/1/01

| | CONFORMING LIMIT | NON-CONFORMING LIMIT | | |
|---|---------------------|-------------------------|---|---|
| ENE-BOD | 75+ | 25+ | Enron Corp. Board of Directors (Executive Committee between Board Meetings) | |
| ENE-OOC | < 75 | < 25 | Ken Lay, Jeff Skilling - Enron Corp. Office of the Chairman | |
| WHOLESALE OOC | < 20 | N/A | Mark Frevert , Chairman & CEO Greg Whalley , President & COO | |
| BUSINESS GROUP HEADS (WHOLESALE) | < 5 | N/A | Enron Americas | John Lavorato , President & CEO Louise Kitchen , COO |
| | | | Enron Europe | John Sherriff , President & CEO Michael Brown , COO |
| | | | Enron Global Markets | Mike McConnell , President & CEO Jeff Shankman , COO |
| | | | Enron Industrial Markets | Jeff McMahon , President & CEO Ray Bowen , COO |
| | | | Enron Global Assets | Rebecca McDonald , President & CEO Jim Hughes , COO |
| | | | | |
| BUSINESS GROUP HEADS (OTHER) | < 5 | N/A | Enron Energy Services | Dave Delainey , Chairman & CEO Janet Dietrich , COO |
| | | | Enron Broadband Services | Ken Rice , CEO Kevin Hannon , President & COO |
| | | | Enron Global Finance | Andy Fastow , CFO |
| | | | Enron Transportation & Services | Stan Horton , Chairman & CEO |
| | | | Enron Xcelerator | Lou Pai , Chairman & CEO |

The Chief Risk Officer maintains incumbency certificate with approval authority.

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Definitions

REVISED 5/1/01

| | |
|---|--|
| CONFORMING | <ul style="list-style-type: none"> • Routine, non-budgeted and within the general business lines of Enron • Made in an industry where Enron has established expertise • Made in a country where Enron has established a local presence and is currently conducting business • RAC will determine if CONFORMING |
| DIVESTITURES | <ul style="list-style-type: none"> • Disposal of assets (including securities) |
| NON-CONFORMING | <ul style="list-style-type: none"> • Outside the general business lines of Enron or in an industry where Enron has little or no expertise • Made in a country where Enron has no local expertise or where the overall exposure to the country is excessive • Made to an entity or within an industry that would result in excessive exposure to that entity or industry • Deemed NON-CONFORMING if the Deal Approval Sheet indicates RAC RECOMMENDATION of "Returns Below Capital Price" or "Do Not Proceed" • RAC will determine if NON-CONFORMING |
| PREPAID OR EMBEDDED DEBT FINANCING | <ul style="list-style-type: none"> • Maximum exposure to Enron or any affiliate as a result of a prepaid physical or derivative trading / risk management transaction, a tilted swap or other transaction where debt financing of a counterparty is embedded in a trading / risk management transaction |
| RAC | <ul style="list-style-type: none"> • Risk Assessment and Control group at Enron • Chief Risk Officer, responsible for RAC activities |
| RAC RECOMMENDATION | <ul style="list-style-type: none"> • RAC's overall recommendation on a TRANSACTION, summarized in one of the following: <ul style="list-style-type: none"> - Proceed with Transaction - Returns Below Capital Price - Do Not Proceed |

Definitions

REVISED 5/1/01

| | |
|---|---|
| <p>RISK ADJUSTED CAPITAL</p> | <ul style="list-style-type: none"> • The aggregation of exposure in a transaction that results from: <ul style="list-style-type: none"> - Capital Expenditure <ul style="list-style-type: none"> * cash outflow or commitment to make a cash outflow (examples include any form of debt or equity financing and prepaid physical or derivative trading / risk management transactions) * providing, directly or indirectly, a guarantee of obligations of unaffiliated third parties or of NON-CONFORMING obligations * the maximum exposure to Enron or any affiliates as a result of a tilted swap or other transaction where debt financing of a counterparty is embedded in a trading / risk management transaction * a commodity or financial position that results in an exposure outside of Board approved limits - Commodity positions - Credit - Guaranties <p>Such exposure translated to an equivalent amount of capital</p> <ul style="list-style-type: none"> • RAC will determine the components and total amount of RISK ADJUSTED CAPITAL |
| <p>TRANSACTION</p> | <p>RISK ADJUSTED CAPITAL / DIVESTITURE / PREPAID OR EMBEDDED DEBT FINANCING</p> <ul style="list-style-type: none"> • Exposure reflected net to Enron, including funding vehicle exposure |

Agenda Item 5(b)
TRANSACTION APPROVAL PROCESS
(Suggested Form of Resolutions)

WHEREAS, the Board of Directors of the Company approved resolutions on October 12, 1998 adopting the Enron Corp. Transaction Approval Process (the "Transaction Approval Process") which provides for (i) a process for review and approval of Capital Expenditures (as defined in the revised policy attached to these minutes) and (ii) a process for prior transactions involving Capital Expenditures to be reviewed for performance and results; and

WHEREAS, the Board of Directors of the Company approved amendments to the Transaction Approval Process at meetings held on February 8, 1999, August 10, 1999, February 7th and 8th, 2000, May 2, 2000, October 7, 2000, December 12, 2000 and February 13, 2001; and

WHEREAS, it would be in the best interest of the Company to further amend the Transaction Approval Process in order to: (1) better account for and reflect changes in approval authority with respect to Business Group Heads and changes in the organizational structure of Enron Corp.; and (2) make such amendments necessary to further clarify the Transaction Approval Process;

NOW THEREFORE BE IT RESOLVED, that the Company revise the Transaction Approval Process to that attached to these minutes and as set forth in these resolutions;

RESOLVED FURTHER, that the revised Transaction Approval Process is adopted and approved, that a copy of the revised policy be attached to the minutes as Exhibit A, and that the persons, officers and Approving Units identified therein shall perform the responsibilities as specified; for the purposes of this policy a certification by the President and Chief Executive Officer, the Chief Risk Officer (or his or her designee), the Chief Financial Officer, the Treasurer, any Managing Director or any Vice President to the effect that this policy has been complied with in connection with any transaction involving Capital Expenditures shall be conclusive evidence of compliance and may be relied upon by all persons interested in or participating in such transaction, including (without limitation) the officers signing transactional documents on behalf of the Company and attorneys issuing legal opinions with respect to the transaction;

RESOLVED FURTHER, that the revised Transaction Approval Process shall not apply to the approval process for guarantees *except* as to those guaranteeing the obligations of unaffiliated third parties. The approval process for all other guarantees shall continue as described in the Company's existing "Policy for Approval of Guarantees, Letters of Credit, Letters of Indemnity, and Other Support Arrangements", and shall be reviewed by the Finance Group and the Risk Assessment and Control Group;

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RESOLVED FURTHER, that the Chairman of the Board , the President and Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Treasurer, any Managing Director, any Vice President of the Company or any other person authorized by the Board to act on behalf of the Company be, and each of them hereby is, authorized and empowered to negotiate, enter into, execute, and deliver on behalf of the Company any agreements and documentation in connection with any transaction involving Capital Expenditures which has been approved in accordance with the revised Transaction Approval Process and as the officers executing such agreements shall approve, such approval to be conclusively evidenced by such execution; and

RESOLVED FURTHER, that all actions heretofore taken by the Chairman of the Board, the President and Chief Executive Officer, the Vice Chairman, the Chief Risk Officer, the Chief Financial Officer, the Treasurer, any Managing Director or any Vice President, in the name and on behalf of the Company, related to or in connection with transactions of the type contemplated by the new review process attached to these minutes but which originated prior to these resolutions, including, without limitation, the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects.

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Agenda Item 5c

AGENDA ITEM 5(c)
(SUGGESTED FORM OF RESOLUTIONS)

RESOLVED, that in connection with the business of the Company and the formation, capitalization, and business of Enron Finance Partners, LLC, a Delaware limited liability company ("EFP") and a minority interest financing vehicle, the Company be, and hereby is, authorized to cause the creation of a new series of preferred stock of the Company (the "Preferred Stock") in an aggregate authorized amount of \$1 billion and in accordance with the terms set forth on Exhibit A hereto and such other terms as any Authorized Officer (as hereafter defined) of the Company shall approve;

RESOLVED FURTHER, that the Statement of Resolutions Establishing a Series of Preferred Stock of the Company, in the form of Exhibit B hereto ("Statement of Resolutions"), be, and it hereby is, authorized and approved, and any Authorized Officer (as hereafter defined) of the Company is hereby authorized, empowered, and directed to cause the Statement of Resolutions to be filed with the State of Oregon, setting forth the rights and preferences of the Preferred Stock;

RESOLVED FURTHER, that in consideration of and against payment to the Company of the "Issue Price" as referenced on Exhibit A hereto in the form of cash, promissory notes, and/or other securities of the Company, the Company issue and sell to Enron Asset Holdings, LLC, a Delaware limited liability company ("EAH") and an indirect subsidiary of EFP, the number of shares of the Preferred Stock consistent with the terms set forth on Exhibit A and Exhibit B hereto; and the proper officers of the Company be, and each of them hereby is, authorized, empowered, and directed to issue in the name of EAH, and in accordance with the terms set forth on Exhibit A and Exhibit B hereto, one or more certificates representing such stock, and to deliver such certificate or certificates to EAH upon delivery to the Company of the consideration for which such stock is to be issued; and that such shares, when so issued and delivered, shall be fully paid and nonassessable shares;

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RESOLVED FURTHER, that the Preferred Stock be represented by certificates in the form of a certificate approved by the Board of Directors of the Company and hereafter attached to these resolutions;

[RESOLVED FURTHER, that _____ shares of common stock, without par value per share, of the Company ("Common Stock") are hereby appropriated, reserved, and irrevocably set aside for the purpose of enabling the holders of the Preferred Stock to convert same in accordance with the terms and provisions of the Company's Articles of Incorporation and the Statement of Resolutions, and upon conversion and delivery of the appropriate instrument to the Company in the form for conversion, the Company shall forthwith cause to be issued and delivered shares of Common Stock in conversion of same, and such shares when issued and delivered shall be fully paid and non-assessable shares;]
[For the convertibility feature; To confirm we have the capacity in Enron's current authorized common stock and want to reserve shares for this purpose.]

RESOLVED FURTHER, that the formation and capitalization of a new minority interest financing vehicle ("Financing Vehicle") by the Company and one or more controlled affiliates of the Company (to be identified by any Authorized Officer (as hereafter defined) of the Company), be, and hereby is, authorized, approved, ratified, and confirmed;

RESOLVED FURTHER, that in connection with the formation and capitalization of the Financing Vehicle, the Company be, and hereby is, authorized to cause the formation and capitalization of two direct or indirect subsidiaries of the Financing Vehicle, and such formation and capitalization be, and hereby is, authorized, approved, ratified, and confirmed;

RESOLVED FURTHER, that in addition to an initial \$1,000 cash capital contribution by the Company to Financing Vehicle in consideration of its admission as a member of Financing Vehicle, which is hereby authorized, approved, ratified, and confirmed, the Company be, and it hereby is, authorized to cause a further capital contribution to Financing Vehicle by executing an Option Agreement ("Option Agreement"), between the Company and Financing Vehicle,

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granting Financing Vehicle an exclusive and irrevocable option through May 31, 2011 to purchase all issued and outstanding shares of common stock, \$3.75 par value per share (the "Shares"), of Portland General Electric Company, an Oregon corporation ("PGE") and an affiliate of the Company, the exercise of which is conditioned upon (i) termination of that certain Stock Purchase Agreement, dated November 5, 1999, between the Company and Sierra Pacific Resources, a Nevada corporation, providing for the sale of common stock of PGE, and (ii) the receipt or satisfaction of any and all governmental and regulatory approvals (or waiting periods) required for the exercise of the option and the transfer or assignment of the Shares, as the case may be; and the execution, delivery, and performance of such Option Agreement and contribution be, and hereby are, authorized, approved, ratified, and confirmed;

RESOLVED FURTHER, that in connection with the execution and delivery of the Option Agreement, Financing Vehicle will assume approximately \$1.9 billion of debt of the Company (the "Enron Debt Obligations"), which debt will be assumed pursuant to an assumption agreement (the "Assumption Agreement") between the Company and Financing Vehicle, and such assumption by Financing Vehicle of the Enron Debt Obligations and the execution and delivery of the Assumption Agreement be, and hereby are, authorized, approved, ratified, and confirmed;

RESOLVED FURTHER, that upon assumption of the Enron Debt Obligations by Financing Vehicle, a subsidiary of Financing Vehicle will assume the Enron Debt Obligations pursuant to a supplemental assumption agreement (the "Supplemental Assumption Agreement"), and such assumption by such Financing Vehicle subsidiary and the execution and delivery of the Supplemental Assumption Agreement be, and hereby are, authorized, approved, ratified, and confirmed;

RESOLVED FURTHER, that as a result of the Assumption Agreement and the Supplemental Assumption Agreement, the Company and the Financing Vehicle subsidiary will not be released from the Enron Debt

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Obligations, but Financing Vehicle will be released from the Enron Debt Obligations;

RESOLVED FURTHER, that in order to provide financing and liquidity for the Company and its businesses, the Company is hereby authorized, in its own capacity and in its capacity as any direct or indirect managing or other member of Financing Vehicle, to arrange, participate in, and consummate a financing for Financing Vehicle with up to \$500 million in proceeds from one or more third parties and, in connection therewith, to:

- (a) cause Financing Vehicle to loan funds to one or more third parties or to the Company or to affiliates of the Company, or receive as a loan, contribution, or investment funds by one or more third parties, the Company, or affiliates of the Company, in connection with the business of Financing Vehicle and the Company;
- (b) seek the participation or investment by any affiliated or unaffiliated investors, and cause the issuance and/or sale of equity or debt securities or membership interests in Financing Vehicle in such amounts and at such times as determined by the Company, which issuances may be to an affiliate of the Company or to an investor or investor group not affiliated with the Company;
- (c) engage any financial, legal, or other advisors to implement financings, loans, and issuances of equity or debt securities or membership interests for Financing Vehicle, the Company, or their respective affiliates; and
- (d) form and capitalize all entities necessary or appropriate to effectuate the foregoing transactions;

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RESOLVED FURTHER, that the Company hereby authorizes the implementation of all actions necessary or appropriate to accomplish the purposes of the foregoing resolutions, including, without limitation, (i) the creation of entities (including, but not limited to, corporate entities, limited liability companies, branches, and/or partnerships under the laws of the United States, the states thereof, and foreign jurisdictions), (ii) the issuance of or purchase of shares or other interests by the Company, EFP, EAH, Financing Vehicle, and their respective subsidiaries and affiliates, (iii) contributions of capital to EFP, EAH, Financing Vehicle, and to subsidiaries and affiliates of EFP, EAH, Financing Vehicle, and the Company, (iv) transfers by the Company, EFP, EAH, Financing Vehicle, or their respective subsidiaries or affiliates of receivables or other assets (including, without limitation, third party, Company, EFP, EAH, Financing Vehicle, or their respective subsidiaries' or affiliates' notes or other financial obligations), (v) making guarantees and indemnifications by the Company, EFP, EAH, Financing Vehicle, or their respective subsidiaries or affiliates, (vi) borrowing or providing lending by the Company, EFP, EAH, Financing Vehicle, or their respective subsidiaries or affiliates, (vii) acquisitions of securities of the Company, EFP, EAH, Financing Vehicle, or their respective subsidiaries or affiliates, and (viii) the sale of securities by the Company, EFP, EAH, Financing Vehicle, or their respective subsidiaries or affiliates to third parties, all of the foregoing subject to the applicable charter and governing documents of the Company, EFP, EAH, Financing Vehicle, and their respective subsidiaries and affiliates, and the execution and delivery of contractual agreements as deemed necessary or appropriate and approved and executed by any Authorized Officer (as hereafter defined) or representative of the Company, EFP, EAH, or Financing Vehicle acting on the advice of counsel, which is hereby authorized and which shall be conclusively evidenced by their signatures on documents intended to be final documents;

RESOLVED FURTHER, that a Committee of the Board of Directors consisting of Kenneth Lay and Jeffrey Skilling (with Kenneth Lay to serve as chairman) be, and hereby is, constituted under Section 3, Article IV of the Company's Bylaws with full power and authority on behalf of the Board

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(except as otherwise contemplated by Section 6, Article IV of the Company's Bylaws) to:

- (a) settle and approve the terms and authorize execution on behalf of the Company of such additional documents relating to the transactions undertaken or proposed to be undertaken by the foregoing resolutions as may be required or necessary in order to enable the Company and its affiliates to fulfill their respective obligations in connection with the foregoing resolutions;
- (b) pay or authorize the payment of all fees, expenses, or charges incurred by or on behalf of the Company or its affiliates in connection with the transactions contemplated by the foregoing resolutions, including (but without limitation) the fees and expenses of the Company's and its affiliates' financial, legal, and professional advisers; and
- (c) take any and all such further action as they shall deem necessary or desirable in connection with the transactions contemplated by the foregoing resolutions;

RESOLVED FURTHER, that the Chairman of the Board, any Vice Chairman of the Board, the President or any Vice President (including any Executive Vice President, Senior Vice President, or Vice President), the Treasurer or any Deputy Treasurer, and the Secretary or any Assistant Secretary of the Company (each an "Authorized Officer") and its counsel be, and each hereby is, authorized, empowered, and directed (and any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, EFP, EAH, Financing Vehicle, and/or their respective affiliates, under their respective corporate seals or otherwise, and to pay all such expenses as in their discretion appear to be necessary or desirable to carry

EC004403863

into effect the purposes and intentions of this and each of the foregoing resolutions; and

RESOLVED FURTHER, that all actions heretofore taken by any officer or representative of the Company related to or in connection with the transactions contemplated by these resolutions be, and hereby are, adopted, ratified, confirmed, and approved in all respects.

AGENDA ITEM 5 (c)
(SUGGESTED FORM OF RESOLUTIONS)

WHEREAS, in connection with the formation, capitalization, and financing of Enron Finance Partners, LLC, a Delaware limited liability company ("EFP") and an affiliate of the Company, and the consummation of certain transactions in connection therewith previously approved by the Board of Directors at a meeting held on August 7-8, 2000, the Company has executed and delivered a Demand Promissory Note, dated as of November 21, 2000, in the original principal amount of \$125 Million Dollars, with a maturity date of November 21, 2010, and bearing an interest rate of eight percent per annum ("Promissory Note"), made payable to Enron Capital Investments Corp., a Delaware Corp. ("ECIC") and an affiliate of the Company, as a contribution to the capital of ECIC;

WHEREAS, upon receipt of the Promissory Note, ECIC contributed the Promissory Note to EFP as a capital contribution by ECIC;

WHEREAS, in connection with the formation, capitalization, and financing of EFP, and the consummation of certain transactions in connection therewith previously approved by the Board of Directors at a meeting held on August 7-8, 2000, the Company has contributed \$20 Million cash to Enron Finance Management, LLC, a Delaware limited liability company ("EFM") whose sole member is the Company;

WHEREAS, upon receipt of such contribution, EFM further contributed the \$20 Million cash to Enron Asset Holdings, LLC, a Delaware limited liability company ("EAH") and an affiliate of the Company, as a capital contribution;

WHEREAS, upon receipt of such contribution, EAH loaned the \$20 Million to the Company;

WHEREAS, in connection with the approval of the contribution by the Company to EFP of 11,500,000 shares of common stock (the "EOG Stock") of EOG Resources, Inc. ("EOG") previously approved by the Board of Directors at a meeting held on August 7-8, 2000, the Company entered into

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that certain Consent Agreement, dated as of November 28, 2000 ("Consent Agreement"), among the Company, EOG, EFP, Enron Intermediate Holdings, LLC, a Delaware limited liability company ("EIH"), EAH, and Aeneas L.L.C., a Delaware limited liability company ("Aeneas"), providing for: (i) the consent by EOG of the transfers of the EOG Stock from the Company to EFP, from EFP to EIH, from EIH to EAH, and from EAH to Aeneas; (ii) the commitment of the Company, during the period from the date thereof through the maturity date of Enron's 7% Exchangeable Notes, at any meeting of EOG stockholders with respect to which Enron, EFP, EIH, EAH or Aeneas owns any EOG Stock entitled to vote, to attend and vote (or cause to be voted) all of such EOG Stock in the manner, if any, recommended by the board of directors of EOG; (iii) the obligation of the Company to indemnify EOG and its subsidiaries from and against any taxes imposed on EOG or EOG International with respect to the share exchange consummated in August 1999 to the extent resulting from the transfers of the EOG Stock pursuant to the transactions consented to by EOG in the Consent Agreement; (iv) the agreement by the Company that EOG shall not be liable for and shall not be obligated to indemnify the Company from any taxes if EOG shall prove by clear and convincing evidence that any of the transactions consented to by EOG in the Consent Agreement that were or are effected by Enron were a contributing cause of the failure to maintain continuity of interest within the meaning of Treas. Reg. §1.355-2(c); (v) the forgiveness by the Company of certain indebtedness owing from EOG and/or its affiliates to the Company for telecommunication services, treasury services and banking services provided by the Company and its affiliates pursuant to a services agreement in an aggregate of approximately \$1,000,000; and (vi) the obligation of the Company to reimburse EOG for all reasonable out-of-pocket legal expenses incurred by EOG with Wachtell, Lipton, Rosen & Katz, special counsel to EOG, and Steptoe & Johnson LLP, special tax counsel to EOG, in connection with the negotiation and execution of the Consent Agreement;

WHEREAS, Joint Energy Development Investments II Limited Partnership, a Delaware limited partnership ("JEDI II"), owned, among other investments, a Class B Membership Interest in East Coast Power L.L.C., a Delaware limited liability company ("ECP LLC");

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WHEREAS, Enron Capital Management III Limited Partnership, a Delaware limited partnership ("ECM III"), is a limited partner in JEDI II;

WHEREAS, ECT Merchant Investments Corp. ("ECT Merchant") and Enron Capital North America Corp. ("Enron Capital"), each Delaware corporations and wholly-owned affiliates of the Company, are limited partners in ECM III;

WHEREAS, under the Amended and Restated Partnership Agreement of ECM III, dated as of December 4, 2000, the rights and obligations of the ECM III limited partners are, in part, defined by reference to the underlying investments of JEDI II;

WHEREAS, ECT Merchant contributed to Boreas Holdings Corp., a Delaware corporation ("Boreas") and wholly-owned affiliate of the Company, the portion of ECT Merchant's limited partnership interest in ECM III that relates to JEDI II's Class B Membership Interest in ECP LLC or any interest in ECP LLC received in exchange therefor (the "ECT Merchant Asset"), in exchange for shares of common stock, \$0.01 par value per share, of Boreas ("Common Stock"), pursuant to a Contribution Agreement among ECT Merchant, Enron Capital and Boreas (the "Boreas Contribution Agreement");

WHEREAS, Enron Capital contributed to Boreas the portion of Enron Capital's limited partnership interest in ECM III that relates to JEDI II's investment in ECP LLC and in East Coast Power Holding Company L.L.C., a Delaware limited liability company, other than the ECT Merchant Asset (such interest being the "Enron Capital Asset," and the ECT Merchant Asset and the Enron Capital Asset are sometimes collectively referred to as the "ECM Interests"), in exchange for shares of Common Stock, pursuant to the Boreas Contribution Agreement;

WHEREAS, it was and is the intention of the affected parties that the contributions of the ECT Merchant Asset and the Enron Capital Asset to Boreas, and the issuances of shares of Common Stock of Boreas to ECT Merchant and to Enron Capital, be consummated pursuant to Section 351 of the Internal Revenue Code of 1986, as amended (the "Code");

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WHEREAS, following consummation of the foregoing transactions, Boreas transferred and contributed to EFP, as an initial capital contribution, the ECM Interests in exchange for a Class B Membership Interest in EFP and the admission of Boreas to EFP as a Class B Member (the "EFP Contribution"), pursuant to a Contribution Agreement among Boreas, EFP, EIH, and EAH (the "EFP Contribution Agreement");

WHEREAS, pursuant to the EFP Contribution Agreement, Boreas was admitted to EFP as a Class B Member and holds a Class B Membership Interest in EFP, all pursuant to a First Amendment to Third Amended and Restated Limited Liability Company Agreement of EFP (the "First Amendment");

WHEREAS, pursuant to the EFP Contribution Agreement, EFM and the other members of EFP (including the Company) entered into the First Amendment, reflecting the capital contribution by Boreas to EFP;

WHEREAS, following the EFP Contribution, EFP further contributed the ECM Interests to EIH, as a capital contribution (the "EIH Contribution"), pursuant to the EFP Contribution Agreement;

WHEREAS, following the EIH Contribution, EIH further contributed the ECM Interests to EAH, as a capital contribution (the "EAH Contribution"), pursuant to the EFP Contribution Agreement;

WHEREAS, pursuant to the EFP Contribution Agreement, EFM and EIH entered into a First Amendment to Second Amended and Restated Limited Liability Company Agreement of EAH, reflecting the additional capital contribution by EIH to EAH;

WHEREAS, in connection with the EFP Contribution, the EIH Contribution and the EAH Contribution, Enron North America Corp., a Delaware corporation ("ENAC") and an affiliate of the Company, assumed in the aggregate \$93,634,266.60 of debt of the Company under that certain indenture dated as of November 1, 1985, between the Company (formerly InterNorth, Inc.) and Harris Trust and Savings Bank, as Trustee (whose successor in interest is The

Bank of New York), as supplemented and amended to date (the "Debt Obligations"), which debt was assumed pursuant to two Assumption Agreements (the "ENAC Assumption Agreements");

WHEREAS, upon assumption of the Debt Obligations by ENAC, ECT Merchant further assumed \$936,342.67 of such Debt Obligations pursuant to a Supplemental Assumption Agreement (the "ECT Merchant First Supplemental Assumption Agreement");

WHEREAS, upon assumption of the Debt Obligations by ENAC, Enron Capital further assumed \$92,697,923.93 of such Debt Obligations pursuant to a Supplemental Assumption Agreement (the "Enron Capital First Supplemental Assumption Agreement");

WHEREAS, upon assumption of the Debt Obligations by ECT Merchant and Enron Capital, Boreas further assumed the Debt Obligations evidenced by the ECT Merchant First Supplemental Assumption Agreement and the Enron Capital First Supplemental Assumption Agreement pursuant to two Supplemental Assumption Agreements (the "Second Supplemental Assumption Agreements");

WHEREAS, upon assumption of the Debt Obligations by Boreas pursuant to the Second Supplemental Assumption Agreements, EFP further assumed such Debt Obligations pursuant to two Supplemental Assumption Agreements (the "Third Supplemental Assumption Agreements");

WHEREAS, upon assumption of the Debt Obligations by EFP pursuant to the Third Supplemental Assumption Agreements, EIH further assumed such Debt Obligations pursuant to two Supplemental Assumption Agreements (the "Fourth Supplemental Assumption Agreements"); and

WHEREAS, as a result of the ENAC Assumption Agreements, the ECT Merchant First Supplemental Assumption Agreement, the Enron Capital First Supplemental Assumption Agreement, the Second Supplemental Assumption Agreements, the Third Supplemental Assumption Agreements, and the Fourth Supplemental Assumption Agreements, EFP was released from the Debt Obligations, but the Company, Boreas,

ECT Merchant, Enron Capital and Boreas were not released from the Debt Obligations;

WHEREAS, in connection with the third party financing of EFP in the amount of \$500 million and the syndication thereof, the Company and the other members of EFP entered into a Second Amendment to Third Amended and Restated Limited Liability Company Agreement of Enron Finance Partners, LLC ("Second Amendment") providing that no Class B Membership Interest (including those held by the Company and its subsidiaries) may be transferred to a person other than to the Company or an affiliate of the Company without the consent of a majority of the interests held by the Class C Member (an affiliate of Chase Bank of Texas);

NOW, THEREFORE, IT IS RESOLVED, that the execution and delivery by the Company of the Promissory Note be, and hereby is, authorized, approved, ratified and confirmed;

RESOLVED FURTHER, that the contribution by ECIC of the Promissory Note to EFP as a capital contribution by ECIC be, and hereby is, authorized, approved, ratified and confirmed, and the Company hereby recognizes EFP as the holder of the Promissory Note;

RESOLVED FURTHER, that the contribution by the Company to EFM of \$20 Million cash as a capital contribution be, and hereby is, authorized, approved, ratified and confirmed;

RESOLVED FURTHER, that the Directors hereby authorize, approve, ratify and confirm the execution, delivery and performance by the Company of the terms and conditions of the Consent Agreement;

RESOLVED FURTHER, that the Directors hereby authorize, approve, ratify and confirm the assumption by ENAC of the Debt Obligations pursuant to the ENAC Assumption Agreements and the execution, delivery and performance by the Company of the terms and conditions of the ENAC Assumption Agreements;

RESOLVED FURTHER, that the Directors hereby authorize, approve, ratify and confirm the execution, delivery and performance by the Company of the ECT Merchant First

Supplemental Assumption Agreement and the Enron Capital
First Supplemental Assumption Agreement;

RESOLVED FURTHER, that the Directors hereby authorize, approve, ratify and confirm the execution, delivery and performance by the Company of the First Amendment and the Second Amendment;

RESOLVED FURTHER, that the Chairman of the Board, any Vice Chairman of the Board, the President or any Vice President (including any Executive Vice President, Senior Vice President, or Vice President), the Treasurer or any Deputy Treasurer of the Company and its counsel be, and each hereby is, authorized, empowered, and directed (and any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company and/or EFP, under their respective corporate seals or otherwise, and to pay all such expenses as in their discretion appear to be necessary or desirable to carry into effect the purposes and intentions of this and each of the foregoing resolutions;

RESOLVED FURTHER, that all actions heretofore taken by any officer or representative of the Company related to or in connection with the transactions contemplated by these resolutions be, and hereby are, adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

EC004403871

EXHIBIT A

NEW SERIES OF ENRON CORP. PREFERRED STOCK

Summary of Rights and Preferences

| | |
|--------------------------------|---|
| <i>Issuer:</i> | Enron Corp. |
| <i>Holder:</i> | Enron Asset Holdings, LLC |
| <i>Securities:</i> | Cumulative Junior Preferred Stock, Series A (the "New Preferred Stock") |
| <i>Amount:</i> | US\$1 billion aggregate principal amount |
| <i>Issue Price:</i> | \$50 million per share |
| <i>Maturity:</i> | 20 years from the date of issuance |
| <i>Liquidation Preference:</i> | \$50 million per share; Ranks junior to any existing series of the Issuer's preferred stock outstanding as to dividends and distributions on liquidation. |
| <i>Dividend Rate:</i> | Cumulative dividends at the rate of 5% per annum, payable quarterly in arrears, will accrue on each share of the New Preferred Stock from the date of original issue. Dividends will be paid to the holders either in cash or in additional shares of the New Preferred Stock at the option of the Issuer, with the valuation of any dividend shares based on the Issue Price. The Issuer shall not have the right to elect to make in-kind dividends with respect to more than 12 quarterly dividend payments without the affirmative vote of the holders of at least two-thirds of the outstanding New Preferred Stock, voting as a class. Payment of cash dividends on the New Preferred Stock may be subject to certain restricted payment provisions under the Issuer's loan agreements. |
| <i>Sinking Fund:</i> | None |
| <i>Optional Redemption:</i> | No |
| <i>Mandatory Redemption:</i> | The Issuer shall redeem all shares of the New Preferred Stock which remain outstanding on the date which is 20 years following the date of issuance, at a redemption price equal to \$50 million per share, plus an amount equal to the dividends accrued and unpaid to the redemption date. |

Liquidation Rights:

In the event of a voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, holders of the New Preferred Stock will be entitled to receive \$50 million per share, plus accrued and unpaid dividends to the date of payment, before any distribution or payment may be made to holders of any junior preferred stock or common stock of the Issuer. A consolidation, merger or reorganization of the Issuer with any other corporation or corporations, or a sale or transfer of all or substantially all of the assets of the Issuer, or any purchase or redemption by the Issuer of any of its outstanding shares, shall not be regarded as a liquidation, dissolution or winding-up of the affairs of the Issuer.

Subsequent Series of Preferred Stock:

No subsequent series of preferred stock may rank senior to the New Preferred Stock, except as permitted below with the approval of the holders.

Voting Rights:

So long as the New Preferred Stock is outstanding, the Issuer will not, without the affirmative vote of the holders of at least two-thirds of the outstanding New Preferred Stock, voting as a class, (a) change by amendment to the Issuer's Articles of Incorporation, by merger or otherwise, the terms and provisions of the New Preferred Stock so as to affect adversely the rights and preferences of the holders thereof or (b) authorize the issuance of capital stock ranking senior to the New Preferred Stock. Otherwise, holders of New Preferred Stock will not be entitled to vote unless otherwise required by law.

Exchange:

None

Conversion Rights:

None

Transfer Restrictions:

None

Publicly Registered:

No

Preemptive Rights:

None

Registration Rights:

None

Tag-Along Rights:

None

Issuer Board Approval:

Yes; May 1, 2001 Enron Corp. Board Meeting

Public Disclosure:

Yes; Oregon charter filings and SEC filings

EXHIBIT B

STATEMENT OF RESOLUTIONS ESTABLISHING A SERIES OF PREFERRED STOCK OF ENRON CORP.

CUMULATIVE JUNIOR PREFERRED STOCK, SERIES A

Pursuant to Oregon Revised Statutes Section 60.134 and Article IV of the Articles of Incorporation, as amended, of Enron Corp. (the "Corporation"), the Board of Directors of the Corporation has duly adopted the following resolutions on May 1, 2001, establishing a series of Preferred Stock of the Corporation:

RESOLVED, that there is hereby established a series of Preferred Stock of the Corporation designated the Cumulative Junior Preferred Stock, Series A (herein referred to as the "Cumulative Junior Preferred Stock"). The designation and number of shares of such series and the powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof (in addition to those set forth in the Articles of Incorporation, as amended, that may be applicable to such series) are as follows:

A. Definitions. Capitalized terms used but not defined herein shall have the meaning ascribed thereto in the Corporation's Articles of Incorporation, as amended. In addition, the following terms shall have the following meanings when used herein:

(1) The term "accrued dividends" for a share shall mean an amount computed at the quarterly dividend rate on such share from the date on which dividends on such share become cumulative to and including the date to which such dividends are to be accrued, less the aggregate amount of all dividends theretofore paid thereon.

(2) The term "Business Day" shall mean any day of the year except Saturday or Sunday that is a day on which banks are not required or authorized by law to close in New York City, New York, Houston, Texas, or Wilmington, Delaware.

(3) The term "junior stock" shall mean (and references to shares ranking "junior to" the Cumulative Junior Preferred Stock shall refer to), with respect to paragraph C, the Common Stock of the Corporation and any other class or series of stock of the Corporation not entitled to receive any dividends unless all dividends required to have been paid or declared and set apart for payment on the Cumulative Junior Preferred Stock shall have been so paid or declared and, with respect to paragraph D, any class or series of stock of the Corporation not entitled to receive any assets upon the liquidation, dissolution or winding up of the affairs of the Corporation until the Cumulative Junior Preferred Stock shall have received the entire amount to which such stock is entitled upon liquidation, dissolution or winding up.

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(4) The term "parity stock" shall mean (and references to shares ranking "on a parity with" the Cumulative Junior Preferred Stock shall refer to), with respect to paragraph C, any class or series of stock of the Corporation entitled to receive payment of dividends on a parity with the Cumulative Junior Preferred Stock and, with respect to paragraph D, any class or series of stock of the Corporation entitled to receive assets upon the liquidation, dissolution or winding up of the affairs of the Corporation on a parity with the Cumulative Junior Preferred Stock.

(5) The term "senior stock" shall mean (and references to shares ranking "senior to" or "prior to" the Cumulative Junior Preferred Stock shall refer to), with respect to paragraph C, any class or series of stock of the Corporation ranking senior to the Cumulative Junior Preferred Stock in respect of the right to receive dividends and, with respect to paragraph D, any class or series of stock of the Corporation ranking senior to the Cumulative Junior Preferred Stock with respect to the right to receive assets upon the liquidation, dissolution or winding up of the affairs of the Corporation. All classes or series of stock of the Corporation other than junior stock or parity stock shall be senior stock with respect to the Cumulative Junior Preferred Stock, except to the extent expressly provided otherwise in the Corporation's Articles of Incorporation, as amended, including any Statement of Resolutions Establishing a Series of Preferred Stock filed by the Corporation prior to the filing date hereof. The Corporation's (i) 9.142% Perpetual Second Preferred Stock, (ii) Cumulative Second Preferred Convertible Stock, (iii) Mandatorily Convertible Single Reset Preferred Stock, Series A, (iv) Mandatorily Convertible Single Reset Preferred Stock, Series B, (v) Mandatorily Convertible Junior Preferred Stock, Series B and (vi) Series A Junior Voting Convertible Preferred Stock shall be senior stock with respect to the Cumulative Junior Preferred Stock.

B. Designation. The distinctive designation of the series shall be the "Cumulative Junior Preferred Stock, Series A." The number of shares that shall constitute such series shall be twenty (20) shares plus up to the number of shares necessary to fulfill the Corporation's obligations pursuant to paragraph C in the event the Corporation elects to pay dividends in the form of Cumulative Junior Preferred Stock, but in no event more than the number of authorized but unissued shares of Preferred Stock.

C. Dividends.

(1) The holders of Cumulative Junior Preferred Stock, in preference to the rights of holders of any junior stock but subject to the rights of any senior stock, shall be entitled to receive, as and when declared by the Board of Directors out of any funds legally available therefor dividends at an annual rate equal to \$2,500,000 per share (as adjusted for any stock dividends, recombinations or splits with respect to such shares after the filing date hereof), payable quarterly on the first days of January, April, July and October, respectively, in each year, with respect to the quarterly period ending on the day preceding each such respective payment date. Such dividends shall be cumulative

from and shall accrue on each share of Cumulative Junior Preferred Stock beginning on the date on which such share is issued by the Corporation (the "Original Issuance Date"). All dividends paid pursuant to this paragraph C(1) shall be paid in cash or, at the option of the Corporation, in share(s) of the Corporation's Cumulative Junior Preferred Stock (an "In-Kind Dividend"). In the event the Corporation elects to pay an In-Kind Dividend pursuant to this paragraph C(1), the Corporation shall be authorized to issue, at its discretion, fractional shares of Cumulative Junior Preferred Stock or scrip representing fractional shares of Cumulative Junior Preferred Stock. Any fractional shares or scrip representing fractional shares shall be issued based upon a value per share of Cumulative Junior Preferred Stock of \$50,000,000. Notwithstanding the foregoing, the consent of the holders of at least two-thirds of the outstanding Cumulative Junior Preferred Stock, voting as a class, given in person or by proxy, either in writing without a meeting (if permitted by law) or by vote at any meeting called for the purpose, shall be necessary for the Corporation to have the right to elect to make In-Kind Dividends with respect to more than twelve quarterly dividend payments.

(2) No dividend shall be paid upon, or declared or set apart for, any share of Cumulative Junior Preferred Stock or shares ranking on parity with Cumulative Junior Preferred Stock for any dividend period unless at the same time a like proportionate dividend for the same dividend period, ratable in proportion to the respective annual dividend rates fixed therefor, shall be paid upon, or declared and set apart for, all shares of Cumulative Junior Preferred Stock and any Preferred Stock ranking on parity with the Cumulative Junior Preferred Stock that are entitled to such dividends.

(3) As long as shares of Cumulative Junior Preferred Stock remain outstanding, in no event at any time shall any dividend, whether in cash or property, be paid or declared, nor shall any distribution be made, on any junior stock, nor shall any shares of any junior stock be purchased, redeemed or otherwise acquired for value by the Corporation, nor shall the Corporation permit any shares of any junior stock to be purchased, redeemed or otherwise acquired by any subsidiary of the Corporation, unless full cumulative dividends on the Cumulative Junior Preferred Stock scheduled to be paid at or prior to such time pursuant to paragraph C(1) have been declared and paid. The foregoing provisions of this subparagraph (3) shall not, however, apply to (i) a dividend payable solely in any junior stock, (ii) the acquisition of shares of any junior stock in exchange for, or through application of the proceeds of the sale of, shares of any other junior stock, (iii) the acquisition of shares of any junior stock pursuant to contractual obligations binding against the Corporation or any of its subsidiaries that were entered into at a time when such acquisitions of shares could be made pursuant to this subparagraph (3) or (iv) the dividend, distribution or issuance of Rights. "Rights" means rights or warrants distributed by the Corporation under a shareholder rights plan or agreement to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Corporation's capital

stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events:

- (a) are deemed to be transferred with such shares of Common Stock,
- (b) are not exercisable, and
- (c) are also issued in respect of future issuances of Common Stock.

D. Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, then, before any distribution or payments shall be made to the holders of any junior stock, but subject to the rights of any senior stock or parity stock, the holders of the Cumulative Junior Preferred Stock shall be entitled to be paid in full in cash the amount of \$50,000,000 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares after the filing date hereof), together with accrued dividends to the date of such distribution or payment, whether or not earned or declared. If such payment shall have been made in full to the holders of the Cumulative Junior Preferred Stock and all preferential payments or distributions to be made with respect to senior stock and parity stock have been made in full, the remaining assets and funds of the Corporation shall be distributed among the holders of the junior stock, according to their respective rights and preferences and in each case according to their respective shares. If, upon any liquidation, dissolution or winding up of the affairs of the Corporation, the amounts so payable are not paid in full to the holders of all shares of the Cumulative Junior Preferred Stock and parity stock, the holders of the Cumulative Junior Preferred Stock, together with holders of parity stock, shall share ratably in any distribution of assets in proportion to the full amounts to which they would otherwise be respectively entitled. Neither the consolidation, merger or reorganization of the Corporation, the sale, lease or conveyance of all or a part of its assets, nor the purchase or redemption of any of its outstanding shares, shall be deemed a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of the foregoing provisions of this paragraph D.

E. Redemption.

(1) To the extent it may lawfully do so and subject to the rights of holders of any senior stock, on the twentieth anniversary of the Original Issuance Date (or, in the event it may not lawfully do so, the first day following the twentieth anniversary of the Original Issuance Date upon which it may lawfully do so), the Corporation shall redeem all of the Cumulative Junior Preferred Stock at the redemption price of \$50,000,000 per share, together with accrued dividends to the date of distribution or payment, whether or not earned or declared.

(2) Notice of the redemption of Cumulative Junior Preferred Stock shall be mailed or personally delivered, addressed to the holders of record of the shares of outstanding Cumulative Junior Preferred Stock at their respective

addresses as they shall appear on the stock books of the Corporation (but no failure to mail or otherwise deliver such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for such redemption).

(3) If, on or before the redemption date specified in the notice, the redemption price, together with accrued dividends to the date fixed for redemption, whether or not earned or declared, shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, from and after the date of redemption so designated, notwithstanding that any certificate for shares of Cumulative Junior Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed outstanding, the dividends thereon shall cease to accumulate, and all rights with respect to the shares of Cumulative Junior Preferred Stock so called for redemption shall forthwith on the redemption date cease and terminate, except only the right of the holders thereof to receive the redemption price of the shares so redeemed, including accrued dividends to the redemption date, but without interest.

(4) The Corporation may also, at any time prior to the redemption date, deposit in trust, for the account of the holders of the Cumulative Junior Preferred Stock to be redeemed, with a bank or trust company in good standing, organized under the laws of the United States of America, designated in the notice of redemption, the redemption price, together with accrued dividends to the date fixed for redemption, whether or not earned or declared, and, unless the notice of redemption herein provided for has previously been duly mailed or personally delivered, deliver irrevocable written instructions directing such bank or trust company, on behalf and at the expense of the Corporation, to cause notice of redemption specifying the date of redemption to be duly mailed or personally delivered as herein provided promptly upon receipt of such irrevocable instructions. Upon such deposit in trust, after due mailing or personally delivering the notice of redemption or accompanied by irrevocable instructions as provided above, notwithstanding that any certificate for shares of Cumulative Junior Preferred Stock so called for redemption shall not have been surrendered for cancellation, all shares of Cumulative Junior Preferred Stock with respect to which the deposit shall have been made shall no longer be deemed to be outstanding, and all rights with respect to such shares of Cumulative Junior Preferred Stock shall forthwith cease and terminate except only the right of the holders thereof to receive from such bank or trust company, at any time after the time of the deposit, the redemption price, including accrued dividends to the redemption date, whether or not earned or declared, but without interest, of the shares so to be redeemed.

(5) Any moneys deposited by the Corporation pursuant to this paragraph E which shall not be required for the redemption shall be repaid to the Corporation forthwith. Any other moneys deposited by the Corporation pursuant

to this paragraph E and unclaimed at the end of six years from the date fixed for redemption shall be repaid to the Corporation upon its request expressed in a resolution of its Board of Directors, after which repayment the holders of the shares so called for redemption shall look only to the Corporation for the payment thereof.

F. Voting Rights. The holders of Cumulative Junior Preferred Stock shall have no right to vote except as otherwise specifically provided herein, in the Articles of Incorporation, as amended, of the Corporation, or as required by statute.

(1) So long as any shares of Cumulative Junior Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required in the Articles of Incorporation or by law, the consent of the holders of at least two-thirds of the outstanding Cumulative Junior Preferred Stock, voting as a class, given in person or by proxy, either in writing without a meeting (if permitted by law) or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(a) any amendment, alteration or repeal of any of the provisions of the Articles of Incorporation of the Corporation, whether by merger or otherwise, which affects adversely the voting powers, rights or preferences of the holders of the Cumulative Junior Preferred Stock; or

(b) the authorization, creation or issuance of, or the increase in the authorized amount of, any stock of any class or series, or any security convertible into stock of any class or series, ranking senior to the Cumulative Junior Preferred Stock with respect to the right to receive dividends or the right to receive any assets of the Corporation in the event of the liquidation, dissolution or winding up of the Corporation.

(2) Holders of Cumulative Junior Preferred Stock shall not be entitled to receive notice of any meeting of shareholders at which they are not entitled to vote or consent.

G. Other Rights. Shares of Cumulative Junior Preferred Stock shall not have any relative, participating, optional or other special rights or powers other than as set forth herein or in the Articles of Incorporation, as amended.

Agenda Item 5d

EC004403880



**Presentation to the Enron Corp. Finance Committee
Las Vegas Cogeneration, L.L.C.
222MW Power Plant Expansion**

April 30, 2001

Confidential & Proprietary

5D-1

EC004403881

Las Vegas Cogeneration Overview

Existing Power Plant

- ◆ Las Vegas Cogeneration (LVCI) is located in North Las Vegas in rapid-growth load center that is short energy
- ◆ LVC1 began commercial operation in May 1994 as a qualifying facility (QF)
- ◆ 45 MW of on-peak capacity and energy provided to Nevada Power Company under a PPA through May 2024
- ◆ ENA acquired LVC1 in August 1999
- ◆ Funded by non-recourse project debt (\$54.9MM) and Enron/JEDI equity (\$24MM).
- ◆ ENA repowered LVCI in December 1999, reducing heat rate and increasing capacity to 51MW
- ◆ Excess energy is available for merchant sales

Proposed Expansion

- ◆ Continued strong industry demand for merchant generation projects in Western Region
- ◆ Proposal - LVCII:
 - 222MW gas-fired generating facility
 - Two, two-on-one combined cycle units
 - 4 LM6000's from Enron's existing turbine portfolio
 - LVCII is adjacent to LVCI using similar technology
 - 15 year, fixed price tolling agreement with Allegheny Energy Supply (rated BBB+)
- ◆ ENA intends to finalize development, commence construction and divest prior to commercial operations.

Development Status and Sources & Uses

Completed:

- ◆ Site: Industrial zoning approved
- ◆ Air: Permits issued
- ◆ Water/Wastewater: Permits issued/authority granted
- ◆ Engineering, procurement and construction contract executed with Modern Continental with fixed-price, date certain completion guaranteed by A-rated bonding and insurance
- ◆ Firm Power Transmission arranged to liquid delivery point

Remaining:

- ◆ Electrical Interconnect at Nevada Power's 138kv substation
- ◆ Gas Interconnect – Southwest Gas to design, build & operate lateral from the Kern River Pipeline to LVCII
- ◆ Water/Wastewater Definitive Agreement
- ◆ Notice to Proceed with Construction
- ◆ Commercial Operations expected September, 2002

Transaction Sources and Uses (in MM)

| <u>Sources</u> | | <u>Uses</u> | |
|----------------|-----------|--------------------|---------|
| JEDI II | \$ 99.55 | Existing Turbines | \$ 62.0 |
| ENA | \$ 99.55 | Construction Costs | \$107.5 |
| TOTAL: | \$199.10* | Interest Costs | \$ 19.4 |
| | | Contingency | \$ 10.2 |
| | | TOTAL: | \$199.1 |

** Excludes \$0.6 MM Letter of Credit temporarily required for interconnect agreement*

Strategy

- ◆ Finalize development, commence construction and then divest prior to commercial operations.
- ◆ The expansion project, combined with the existing QF asset, will be attractive to numerous generation companies:
 - Proven reliable technology
 - 100% controlling interest
 - Location in fast-growing load pocket in short region
 - 15 year fixed-price tolling agreement
- ◆ Pro-Forma economics are superior to those of Fountain Valley Power, which was recently sold to Black Hills Energy Capital.
 - Equity IRR 18.9% - 21.6%
- ◆ Expressions of interest from Black Hills, Northland Power, Delta Power, Energy Investors Fund, Calpine.
 - Expected gain on sale in 2001: \$25MM - \$30MM

Recommendation

Approve \$199.1 MM to finance construction of Las Vegas Cogeneration expansion (LVCII) subject to completion of the following:

- Execution of definitive tolling agreement with Allegheny Energy Supply
- Receipt of Electrical Transmission Agreement Confirmation
- Execution of Southwest Gas Interconnection Agreement
- Execution of Water/Wastewater Agreement
- Execution of Nevada Power Interconnection Agreement

ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

Deal Type: **SUBSEQUENT INVESTMENT**

| | |
|--|--|
| DEAL NAME: Priscilla Counterparty: Southwest Power LLC Business Unit: Enron Americas Business Unit Originator: Jake Thomas Industry Category: Wholesale Energy - Non-Regulated Power Public/Private: Private Merchant/Strategic: Merchant Conforming/Nonconforming: Conforming | Date DASH Completed: April 19, 2001 RAC Underwriter: Chip Schneider RAC Analyst: Felipe Ibarra Transaction Type: Equity - Private Capital Funding Source: JEDI II/On Balance Sheet Country: United States Expected Closing Date: May 1, 2001 Expected Funding Date: May 1, 2001 |
|--|--|

| | |
|--|-------------------------|
| RAC Recommendation: Proceed with Transaction | Board Approval: Pending |
|--|-------------------------|

APPROVAL AMOUNT REQUESTED (\$MMs)

| | |
|---|-----------------------------|
| New Capital Investment | \$137.1 |
| Capital Equipment from E-Next Generation | \$62.0 |
| Security L/C for Electrical Interconnection | \$0.6 (Unfunded commitment) |

| | |
|-------|----------|
| TOTAL | \$ 199.7 |
|-------|----------|

EXPOSURE SUMMARY (\$MMs)

| | |
|---|---------|
| This Transaction (1) | \$194.9 |
| Existing Exposure (DASH dated 06/15/00) | 4.8 |

| | |
|-------|---------|
| TOTAL | \$199.7 |
|-------|---------|

Note (1): Includes \$14.6 million of interest during construction (IDC) and interest on development loan of \$4.8 million. At 80% leverage the expected equity contribution is approximately \$39.8 million.

DEAL DESCRIPTION

ENA requests the approval to invest \$199.1 million for construction of Southwest Power's expansion to be called Las Vegas Cogeneration II, LLC (LVC II). The project will be located adjacent to the site of Southwest Power's existing 51 MW plant ("LVC I") in North Las Vegas, Nevada. LVC II is a 222 MW gas-fired CCGT comprised of four LM6000s and two steam turbines, yielding a projected heat rate of 7,800 Btu/kWh. Enron will own 50% of LVC II and JEDI II will own the remaining 50%, giving Enron an effective 75% equity interest.

Initial funding for the development was provided through a \$4.8 million bridge loan facility from ENA to LVC II through April 30, 2001. Southwest Power (SWP) is developing LVC II with the assistance of ENA through the existing Corporate Services Agreement. The EPC contractor will be Modern Continental under a fixed-price turnkey contract. Total construction and development costs (before IDC and financing fees) are estimated at \$181.4 million (\$817/kW), while current projection estimates total project cost, including the cost of project financing, is \$199.1 million (\$897/kW). After project financing, the remaining equity investment for each Enron and JEDI II is expected to be approximately \$20 million. The financing plan includes a bridge loan from ENA to LVC II starting on May 1, 2001, with project financing takeout by September 30, 2001. LVC II will have the option to either extend the current Preliminary Notice-to-Proceed or give Modern Continental Full Notice-to-Proceed on May 1, 2001. Estimated funding for the period May 1, 2001, to September 30, 2001 (expected funding date for the project financing) is \$30 million. The four LM6000 PC turbines and two 138 kV transformers required for the expansion will be procured from E-Next Generation.

Prior to Notice-to-Proceed under the EPC Contract, Southwest Power will enter into a 15-year tolling agreement with Allegheny Energy Supply Company ("Allegheny") for the full output of the plant. Further details of this agreement are presented in Appendix I.

EC004403886

TRANSACTION SOURCES AND USES OF FUNDS

| | Sources | | Uses |
|---------|---------|--------------|---------|
| Jedi II | \$99.5 | EPC | \$154.3 |
| ENA | \$99.5 | Owners' Cost | \$8.9 |
| | | Contingency | \$10.2 |
| | | Other Costs | \$25.7 |
| Total | \$199.1 | | \$199.1 |

RETURN SUMMARY (Unlevered)

| Return Components: | PV @ Capital Price | Cumulative IRR | Capital Price Components | |
|--------------------------|-----------------------|-------------------|---------------------------|---------------|
| Cash Outflows | (166,263) | N/A | Risk free rate (%) | 5.12% |
| Cost of Delays in COD | (2,547) | N/A | Equity Premium (%) | 3.37% |
| Intermed. Cash Flows | 167,934 | 10.94% | Credit Premium (%) | 0.00% |
| Terminal Value | 9,178 | 11.89% | Country Premium (%) | 0.00% |
| | | | Transaction-Specific (%) | 2.51% |
| Total Project NPV | 7,761 | 11.89% | RAC CAPITAL PRICE: | 11.00% |

E-Rating:

N/A

Relative upside ratio

N/A

The return summary represents an unlevered case and ownership/operation through the 15-year Tolling Agreement. A probabilistic analysis was also performed for a levered case. Assumptions and results for the levered case are detailed below:

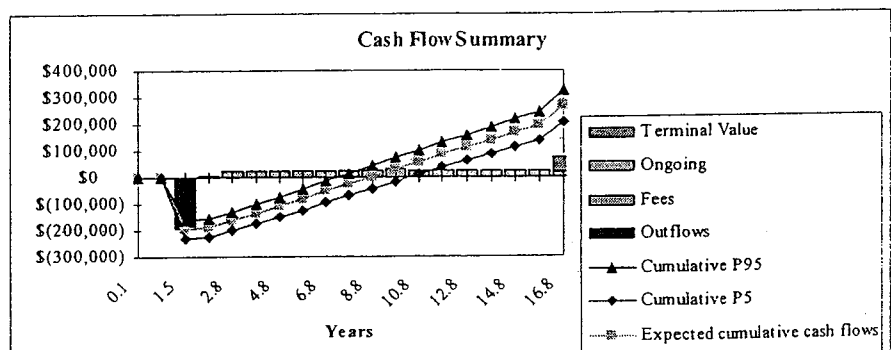
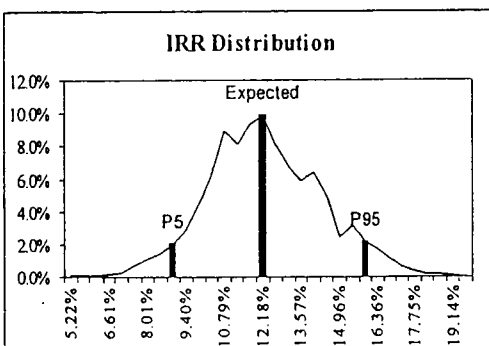
| Case | 70% Debt Case | 80% Debt Case |
|------------------------|-----------------------------------|-----------------------------------|
| Tenor | 14 years | 14 years |
| Coupon | LIBOR + Applicable Margin (below) | LIBOR + Applicable Margin (below) |
| Average Life | 8.14 years | 8.14 years |
| Debt-to-Capitalization | 70% | 80% |
| Coverage | 1.40x min; 1.79x avg | 1.31x min; 1.57x avg |
| Equity IRR | 18.9% | 21.6% |

Applicable Margin

| | | |
|----------------------|------|--------|
| Spread (years 1-3) | 2002 | 1.375% |
| Spread (years 4-6) | 2006 | 1.625% |
| Spread (years 7-9) | 2009 | 1.875% |
| Spread (years 10-13) | 2012 | 2.250% |
| Spread (year 14) | 2016 | 2.500% |

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CASH FLOW SUMMARY



TRANSACTION UPSIDES/OPTIONALITY

Potential upside in the Tolling Agreement includes a revenue provision under which the capacity payments are adjusted for actual output and heat rate. Enron Americas Technical Services believes that LVC II can improve upon

RAC Deal Approval Sheet**Deal Name: Priscilla**

the baseline design heat rate and output capacity stipulated in the tolling agreement of 7,800 Btu/kWh (HHV) and 222 MW, respectively. The baselines for the toll are the GE guaranteed output and heat rate. Additionally, the Variable O&M offered rate (\$3.71/MWh) includes a 5% contingency so it is possible that a small margin could be earned on variable costs when dispatching.

RISK MATRIX

| RISK DESCRIPTION | MITIGATION/COMMENTS |
|---------------------------------|---|
| Construction Risk | <p>Modern Continental, the EPC Contractor, is bonded for the full amount of its \$154 million to turnkey EPC Contract by United States Fidelity and Guaranty Co ("US Fidelity") and Lumbermen's Mutual Casualty Company ("Lumbermen's"). Each of these entities is responsible for half of the total bond. Both have strong credit ratings--US Fidelity is rated AA and A1 for financial strength by S&P and Moody's, respectively. Lumbermen's is rated A and A2 by S&P and Moody's, respectively.</p> <p>Project construction costs could be higher than currently forecasted; however, the degree of variability and potential for unforeseen costs are low at this point given the known cost of major equipment, interconnections and wastewater facilities. In addition, the pro forma includes maximum costs on these items and an additional \$10.1 million contingency.</p> <p>The tolling agreement incorporates damages for which LVC II could be liable. These include \$40,000 per day, liquidated damages for delay in start-up capped at 75 days. The potential liquidated damages are mitigated by damages that would be due to LVC II by Modern Continental under the terms of the EPC contract. The EPC delay liquidated damages begin at \$5,000 per day and ramp-up, over 30 days, to \$40,000 per day. There is a potential \$775,000 cash outflow in the first 75 days of a delay in COD due to this mismatch in liquidated damage payments. Key to Modern Continental's execution and avoidance of LDs will be its ability to hire and maintain appropriate levels of skilled labor in a tight power plant construction market, to timely complete this project. After 75 days, it is expected that the project will be obligated to pass-on to Allegheny only the LDs received from the EPC Contractor. The project incurs a monthly opportunity cost of \$2.7 million in capacity payments in the event of a COD delay as the Tolling Agreement does not extend beyond its stated termination due to such delay.</p> <p>To the extent any delay in COD is not caused by the EPC contractor (e.g. delay in gas line/interconnection or electrical interconnection facilities) the project will be responsible for liquidated damages under the Tolling Agreement for up to 75 days. It is expected that after 75 days, the project will be relieved of its LD obligations related to non-EPC delays.</p> |
| Environmental / Permitting Risk | Development is nearly complete. Status of critical path items is outlined in Appendix III. |
| Operating / Fuel Risk | <p>The tolling agreement incorporates an annual test protocol for the steady state heat rate and capacity of the plant. It is possible that tolling revenue could vary. The tolling agreement includes as its base case both the GE guaranteed heat rate and capacity. Deviations from the design heat rate and design output will be accounted for via adjustments to the capacity payment. Failure to achieve design heat rate or design capacity shall not be an event of default under agreement--adjustment to the capacity payment is the sole remedy.</p> <p>PUC Approval is required for gas interconnection agreement.</p> |

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RAC Deal Approval Sheet**Deal Name: Priscilla**

| | |
|-------------------------|--|
| Credit / Market Risk | Allegheny is rated BBB+ and Baa1 by S&P and Moody's, respectively. The Interconnection Agreement will allow transmission to Mead. Additionally, from Mead, output can be wheeled to SP-15 in California and Palo Verde. Although deregulation has improved the market potential for power produced by LVC II, implementation of legislation in Nevada is not expected for at least two years. |
| Equity Syndication Risk | Factors that make the expansion project attractive to an equity investor are its stable cash flow from the tolling agreement, strategic location in the West near California and flexible combined-cycle design. |

KEY SUCCESS FACTORS

| | NA | Poor | Excellent |
|------------------|----|------|-----------|
| Core Business | | | X |
| Strategic Fit | | | X |
| Upside Potential | | | X |
| Management | X | | |
| Risk Mitigation | | | X |

EXIT STRATEGY

ENA intends to finalize development of this asset, commence construction and divest it prior to the expected commercial operation date (COD). West Origination's estimated value of the Project, upon COD, is presented in Appendix II under various levered discount rate scenarios. For reference, ENA estimates that the discount rate applied to Fountain Valley Power's levered equity cash flows by Black Hills was in the range of 16-18% for terminal values of \$350/kW to \$500/kW. Given the longer term of LVC II's Tolling Agreement (15 years versus 11 years), LVC II's combined-cycle design and, thus, lower heat rate, it is expected that LVC II will sell at the lower end of these discount rates. As shown in Appendix III, the deal team estimates a pre-tax gain of between \$13.5 million and \$24.5 million.

OTHER RAC COMMENTS

Tolling Agreement with Allegheny can be viewed as sale of a covered physical spread option with the premium paid in level installments over a 15-year period. Primary risk is timely construction and start-up of facility by Modern Continental, a lesser-known EPC Contractor in the power industry. Allegheny Energy Supply Company has a stand-alone rating of BBB+/Baa1 that is not supported by a guaranty of its parent Allegheny Energy, Inc.

PUC approval is required for the gas interconnection agreement with Southwest Gas (See Appendix III).
Gas transmission capacity will be assigned to Allegheny

The draft tolling agreement is not clear on LDs, default or termination beyond the first 75 days of delay in COD. This will be reviewed prior to final approval and execution.

This approval provides that up to \$2 million of the \$194.9 be expended before all conditions precedent below are met.

CONDITIONS PRECEDENT

Approval of the investment beyond an incremental \$2 million in development costs is subject to:

- Execution of definitive Tolling Agreement with Allegheny Energy Supply Company
- Execution of Southwest Gas Interconnection Agreement
- Execution of Water/Wastewater Agreement
- Execution of Nevada Power Interconnection Agreement
- RAC and Legal review of all Agreements
- RAC technical review with Americas Technical Services

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MILESTONES

| | |
|--|----------|
| 1. Execution of Water/Wastewater Agreement | 04/24/01 |
| 2. Execution of Gas Interconnection Agreement with Southwest Gas | 04/27/01 |
| 3. Execution of Interconnection Agreement with Nevada Power | 04/27/01 |
| 4. Execution Tolling Agreement | 04/27/01 |
| 5. Execution of ENA / JEDI II Bridge Loan | 04/27/01 |
| 6. Enron BoD Finance Committee Approval | 04/30/01 |
| 7. Notice-to-Proceed under EPC Contract | 05/01/01 |
| 8. Building Permit | 06/01/01 |
| 9. PUC Approval for Gas Transmission | 08/30/01 |
| 10. Funding of Project Financing | 09/30/01 |
| 11. Sale of Asset | 09/30/01 |
| 12. Mechanical Completion | 08/01/02 |
| 13. Commercial Operation | 09/01/02 |

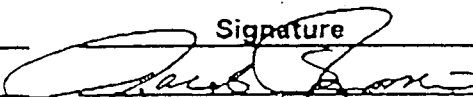
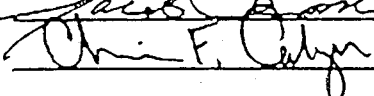

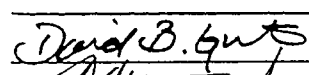
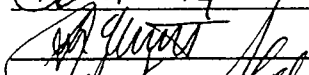
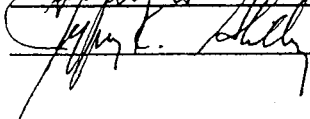
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EC004403890

RAC Deal Approval Sheet

Deal Name: Priscilla

APPROVALS

| | Name | Signature | Date |
|----------------------|---|--|---------------|
| West Origination | Jake Thomas |  | 4-19-01 |
| Regional Management | Christopher Calger |  | 4/19/01 |
| Technical Services | Brian Redmond | | |
| JEDI II | Shirley Hudler | | |
| Americas Accounting | Wes Colwell/Cris Sherman | | |
| Americas Legal |  Mark Haedicke | | |
| Americas Management | John Lavorato/Louise Kitchen | | |
| EWS Management | Mark Frevert | | |
| RAC Management | Rick Buy/Dave Gorte |  | 19 April 2001 |
| Enron Global Finance | Andy Fastow/Ben Glisan |  | 4/23/01 |
| ENE Management | Jeff Skilling |  | 4/23/01 |

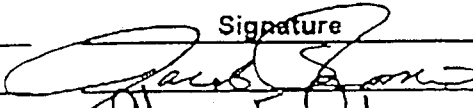
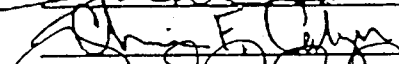
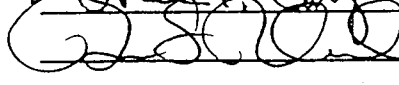
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EC004403891

RAC Deal Approval Sheet

Deal Name: Priscilla

APPROVALS

| | Name | Signature | Date |
|----------------------|-------------------------------|--|---------|
| West Origination | Jake Thomas |  | 4-19-01 |
| Regional Management | Christopher Calger |  | 4/19/01 |
| Technical Services | Brian Redmond <i>W. M. D.</i> |  | 4/20/01 |
| JEDI II | Shirley Hudler | | |
| Americas Accounting | Wes Colwell/Cris Sherman | | |
| Americas Legal | <i>sl</i> Mark Haedicke | | |
| Americas Management | John Lavorato/Louise Kitchen | | |
| EWS Management | Mark Frevert | | |
| RAC Management | Rick Buy/Dave Gorte | | |
| Enron Global Finance | Andy Fastow/Ben Glisan | | |
| ENE Management | Jeff Skilling | | |

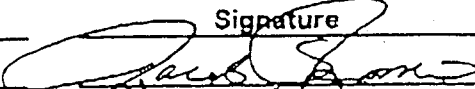
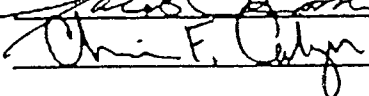
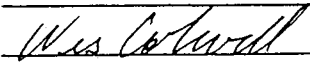

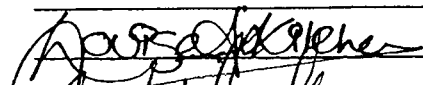
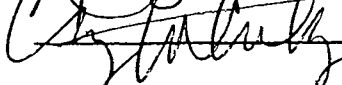
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EC004403892

RAC Deal Approval Sheet

Deal Name: Priscilla

APPROVALS

| | Name | Signature | Date |
|----------------------|---|--|---------|
| West Origination | Jake Thomas |  | 4-19-01 |
| Regional Management | Christopher Calger |  | 4/19/01 |
| Technical Services | Brian Redmond | | |
| JEDI II | Shirley Hudler | | |
| Americas Accounting | Wes Colwell/Cris Sherman |  | 4/19/01 |
| Americas Legal |  Mark Haedicke | | |
| Americas Management | John Lavorato/Louise Kitchen |  | 4/19/01 |
| EWS Management | Mark Frevert / Greg Whalley |  | 4/19/01 |
| RAC Management | Rick Buy/Dave Gorte | | |
| Enron Global Finance | Andy Fastow/Ben Glisan | | |
| ENE Management | Jeff Skilling | | |

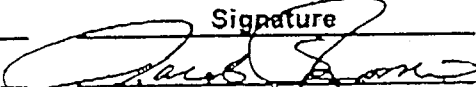
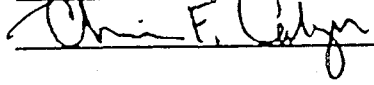

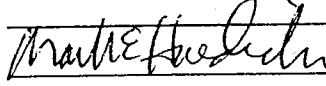
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EC004403893

RAC Deal Approval Sheet

Deal Name: Priscilla

APPROVALS

| | Name | Signature | Date |
|----------------------|---|--|---------|
| West Origination | Jake Thomas |  | 4-19-01 |
| Regional Management | Christopher Calger |  | 4/19/01 |
| Technical Services | Brian Redmond | | |
| JEDI II | Shirley Hudler | | |
| Americas Accounting | Wes Colwell/Cris Sherman | | |
| Americas Legal |  Mark Haedicke |  | 4/19/01 |
| Americas Management | John Lavorato/Louise Kitchen | | |
| EWS Management | Mark Frevert | | |
| RAC Management | Rick Buy/Dave Gorte | | |
| Enron Global Finance | Andy Fastow/Ben Glisan | | |
| ENE Management | Jeff Skilling | | |

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EC004403894

Appendix I – Tolling Agreement

The following table summarizes the general commercial terms of the tolling agreement with Allegheny. The Variable O&M charge contemplated in the toll equals West Power Origination's estimation of variable O&M expenses including major maintenance plus a 5% contingency. Busbar delivery limits LVC II's exposure to changes in electrical transmission tariffs. The economics incorporated in this DASH assume that the plant operates at the base heat rate and capacity of the Tolling Agreement. This capacity and heat rate are the GE guarantee heat rates and capacities for LVC II. Although possible, it is unlikely that the capacity payment will decrease due to the results of annual periodic test and the Tolling Agreement's adjustment formula. It is expected that the actual results will be better. Given the operating performance of LVC I, whose staff will operate LVC II, LVC II is expected to make or exceed its availability and output targets. Following is a summary of the basic Term and Conditions of the Tolling Agreement.

| | |
|--|---|
| Capacity Payment (\$/kW month) | \$12.15 |
| Variable O&M | \$3.71 escalating at CPI |
| Term | 15 Years |
| Delivery Point | Busbar |
| LD's COD | \$40,000/day |
| Guaranteed Availability | Year-round 90% / Peak 95%, subject to permits |
| Failure to meet availability and heat rate targets | Adjustment to capacity payment |
| Base Capacity | 222 MW |
| Steady State Heat Rate | 7800 (Btus/kwh, HHV) |
| Allegheny Credit Rating | BBB+ |

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EC004403895

Appendix II – Valuation Supplement
(provided by West Origination)

| | | Enterprise Value (\$millions) | | |
|---|--|----------------------------------|----------|----------|
| Pretax Equity Discount Rate \ Terminal Value: | | \$450/kW | \$350/kW | \$250/kW |
| 16% | | \$223.6 | \$221.3 | \$219.0 |
| 17% | | \$219.6 | \$217.6 | \$215.7 |
| 18% | | \$216.1 | \$214.3 | \$212.6 |

West Power Origination estimates the sale of the equity on LVC II, (as per assumption above or following closure of a Toll with Allegheny) will result in an estimated gain between \$13 and \$25 million, as per table below.

| | | Pre-Tax Gain on Sale (\$millions) | | |
|---|--|-----------------------------------|----------|----------|
| Pretax Equity Discount Rate \ Terminal Value: | | \$450/kW | \$350/kW | \$250/kW |
| 16% | | \$24.5 | \$22.2 | \$19.9 |
| 17% | | \$20.5 | \$18.5 | \$16.6 |
| 18% | | \$17.0 | \$15.2 | \$13.5 |

5D-16

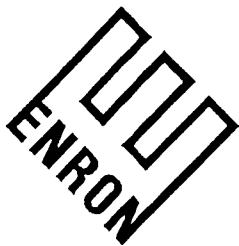
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Appendix III - Status of Critical Path Items

| | |
|------------------------------|--|
| Site Use Permit | Completed August 2000 |
| Air Permit | Completed November 2000 |
| Waste Water Discharge Permit | Completed March 29, 2001. |
| Storm Water Permit | Deemed unnecessary |
| Acid Rain Permit | Application for waiver filed with Clark County. Working to confirm status. |
| Water Supply | The City of North Las Vegas will supply water. On January 31, 2001 an invoice for \$3 million in water interconnect fees has been issued by the city of North Las Vegas. Prior to issuance of the building permit and upon payment of the interconnection fee a Will Serve Letter will be issued. |
| Wastewater | The City of Las Vegas has approved the City of North Las Vegas' request to approve the increase of LCVI's discharge total dissolved solids level to 3,000 ppm. This is sufficient discharge capacity to incorporate the added discharge needs of LVC II. Wastewater interconnection fees of approximately \$5 million will be required prior to issuance of building permit. ENA has negotiated deferred payment of approximately \$4 million, and to make payments refundable, if city does not issue permit. A letter of credit will be required for security for the \$4 million. Final agreement was executed on April 18th. City Council approval scheduled for April 24th. |
| Gas Interconnect | ENA, acting as SWP's agent, is in the final stages of contract negotiation with Southwest Gas. Execution of the final agreement will occur on or before April 27th. Southwest Gas will need to get PUC approval of the contract price, since LVC II's bypass avoidance rates will be below standard tariff rates. PUC approval is expected, since the reduction in rates is due to LVC II's option to build a bypass pipeline at approximately the same cost to the project. PUC approval process likely to require 180 days. |
| Electrical Interconnect | Nevada Power has completed engineering and cost estimation work for the interconnection of the project. Negotiations with Nevada Power have advanced positively. Execution of the interconnection agreement is expected on or before April 27th. |
| Firm Transmission | The transmission study to deliver facility power to Mead is completed. System upgrades identified in the study are approximately \$600,000, which will allow the project to transmit electricity to Mead at Nevada Power's posted tariff rates. Nevada Power issued confirmation letter on April 13th including the form of Transmission Service Agreement. LVC II has 30 days to execute the Transmission Service Agreement. |
| EPC Contract | The EPC contractor is Modern Continental under a fixed-price turnkey contract executed on March 29, 2001. Modern is wrapping the performance of the four LM6000 PC gas turbines into its overall facility guarantee. |
| Ground Lease/ O&M Permit | LVC II is currently financed by LVC I. Bank (lender for LVC I) approval of ground lease and O&M agreement will be required prior to breaking ground of project. Draft documents are being prepared and will be submitted for bank approval by April 20. |
| Tolling Agreement | Allegheny Energy Supply Company will be the Tolling Agreement counter-party. Final execution of a binding agreement is anticipated on or before April 27, 2001. |

5D-17

EC004403897



Interoffice Memorandum

PRIVILEGED AND CONFIDENTIAL

TO: Mark Haedicke
Sheila Tweed
cc:
Chris Calger, Dave Parquet,
Jim Gilbert

DATE: April 16, 2001

FROM: Dale Rasmussen

DEPARTMENT: Legal Department

SUBJECT: Legal Risk Memo – Project Priscilla

Title of Transaction/Agreement: Project Priscilla

Enron Entity: Las Vegas Cogeneration II, L.L.C. ("LVC II") (indirectly owned by ENA)

Nature of Transaction: Development of approx. 222 MW generation facility incorporating 4 GE LM6000 combustion gas turbines adjacent to and on property leased from existing Las Vegas Cogeneration Limited Partnership ("LVCLP") facility. Certain portions of the two facilities (control room, etc.) will support both LVC II and LVCLP and will be owned by LVCLP. Development bridge financing (approx. \$50MM) from ENA/JEDI through approx. July, 2001; permanent financing to be obtained thereafter, including refinancing of existing LVCLP credit facility. Not eligible for TurboPark. Output of new facility to be sold to 3rd party through 15-year tolling arrangement. Entire facility to be sold prior to on-line date of Sept. 1, 2002.

LVCLP will operate combined facilities pursuant to O&M Agreement.

Legal Risks: **Legal Risk Rating = 2** (1 being low risk, and 5 being high risk)

1. Toll Exposure

Document under negotiation. Potential exposure from long-term toll position mitigated by not providing market cover damages. Damages limited to adjustment of capacity payments for succeeding year, based on annual performance tests. Counterparty would have right to terminate if availability < fixed% for calendar year. Delay in bringing on-line results in \$40,000/day liquidated damages; capped at 75 days (\$3MM) total. In addition, Capacity Payments not paid until achieve commercial operation. Delay LD's similar, but not identical to corresponding LD's under EPC contract (damages begin at \$15,000/day and escalate to \$40,000/day). Unable to negotiate perfectly-matched damages with toll counterparty, but \$40,000/day is significantly less than forecast market damages would be. If delay is "Owner-caused delay" under EPC contract (including delays due to failure of gas transportation pipeline or interconnection facilities to be built by Southwest Gas or Nevada Power Company, respectively), LVC II would be exposed for full value of \$40,000 LD's. Gas and electricity transmission companies refuse to provide delay LD's. Attempting to mitigate exposure by having step-in rights for completion of transport/transmission facilities, but utilities have resisted. Negotiations are ongoing.

5D-18

★

2. EPC Contract Risks

EPC contract has been signed; proceeding under Preliminary Notice to Proceed. LVC 2 can cancel EPC contract for convenience, subject to reimbursing contractor for costs incurred, plus subcontractor termination costs (total prior to 4/30/01 is \$1,000,000). Cancellation cost increases to approx. \$15,000,000 by end of May.

3. Lender Approval Risks

Approval by existing LVCLP lenders will be required for ground lease and O&M Agreement between LVC 2 and LVCLP. Necessary consents will be obtained. Possibility of moving LVCLP into Condor structure, and thus taking out LVCLP lenders. If Lender approval is not obtained or refinancing is not put in place by end of April, cancellation exposure increases substantially.

4. Equity Structure Risks

LVC II is owned by Southwest Power, which in turn is owned by ENA (through TLS Investors, LLC), by JEDI II and by RADR EMP, LLC (a "friend of Enron" structured entity). Development costs will be funded through a bridge loan; however, net revenues from sale will be distributed to respective owners of Southwest Power unless an alternative distribution arrangement is made. RADR equity can be called at any time. Can remove RADR without violating QF ownership restrictions under current ENE SEC exemption filing. Robert Eickenroht has further information on this filing and its effect on QF ownership.

5. Financing Risks

Permanent financing not obtained. Major agreements contain "assignment for financing" clauses, but lenders may require changes to documents.

6. Development Risks

See DASH. Currently resolving outstanding question as to Acid Rain Permit (required for operation, but not for construction; County authority is new to role of issuing permit under EPA regulations).

Seeking resolution with City of North Las Vegas as to easement for flood channel access road required by City under Site Use Permit. Requested alignment would impinge on existing switchyard. LVC 2 is proposing alternate route with "cap" over flood channel. Will need to resolve prior to issuance of building permit. City has agreed in concept; taking to design board for approval 5/8.

City of North Las Vegas is effectively the sole source for water to the facility. The City's service commitment is via a "will serve" letter, rather than by a firm service contract. The City will not enter into a more formal service contract at this time. We have asked our local counsel, McDonald Carrano, to provide an opinion regarding the enforceability of the "will serve" letter. This opinion will be qualified, but initial research confirms that this is the standard practice for municipal water agencies in Nevada. We are further confirming the refundability of connection fees (approx. \$2 million) payable prior to commencement of construction.

Nevada Power recently informed LVC 2 of potential delay in reconductoring transmission line south of plant. This could limit ability to achieve 9/1/01 on-line date. Evaluating other remedial action schemes that would allow for target on-line date, with line improvements scheduled later.

If terminate construction prior to commercial operation, will be obligated to reimburse Southwest Gas for expenses incurred in installing bypass pipeline. Similar obligation to Nevada Power for interconnection facility upgrades.

Nevada Power/Southwest Gas contracts specify arbitration with neutral arbitrator(s) and Nevada law in Nevada. Both parties initially required exclusive jurisdiction in Nevada courts. Made every effort to use New York or other neutral law and non-Nevada sites for arbitration, but counterparties refuse to compromise on these points. In light of other key concessions and getting agreement an AAA arbitration, this should not create undue exposure.

EC004403899

AGENDA ITEM 5(d)
(SUGGESTED FORM OF RESOLUTIONS)

WHEREAS, the Company owns, directly or indirectly, 100% of the membership interests in and to TLS Investors, L.L.C. ("TLS"); and

WHEREAS, TLS owns a significant portion of the membership interests in, and is the managing member of, Southwest Power, L.L.C. ("Southwest"); and

WHEREAS, Southwest owns, directly or indirectly, 100% of the ownership interests in and to both Las Vegas Cogeneration Limited Partnership ("LVC I") and Las Vegas Cogeneration II, L.L.C. ("LVC II"); and

WHEREAS, LVC I owns and operates an existing generation facility of approximately 52 MW nominal output as a Qualified Facility (the "LVC I Facility") subject to a power purchase agreement with Nevada Power Company; and

WHEREAS, LVC II is developing a new power generation facility of approximately 222 MW nominal output (the "LVC II Facility") on land to be leased from LVC I immediately adjacent to the existing LVC I facility; and

WHEREAS, in connection with the development of the LVC II Facility LVC II desires to enter into (a) an Engineering, Procurement and Construction Contract with Modern Continental South Inc. (the "EPC Contract"), (b) a Tolling Agreement Confirmation to an EEI Master Power Purchase and Sale Agreement with Allegheny Energy Supply Company LLC (the "Tolling Agreement"), (c) an Interconnection and Operation Agreement with Nevada Power Company (the "Interconnection Agreement"), (d) a Service Agreement for the Transportation of Customer-Secured Natural Gas and associated Operations Procedures Agreement with Southwest Gas Corporation, (e) a Bridge Loan Agreement with the Company and with Joint Energy Development Investments II Limited Partnership (the "Bridge Loan Agreement"), and (f) such other agreements as may be reasonably necessary for the successful development and operation of the LVC II Facility (including without limitation agreements with the City of North Las Vegas for the supply of process water and the discharge of wastewater, joint venture, shareholder and participation agreements with future project participants, operations

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and maintenance agreements, fuel supply, financing and loan agreements with various project lenders,) (collectively, the "Additional Agreements") (the EPC Contract, Tolling Agreement, Interconnection Agreement, Service Agreement, Bridge Loan Agreement and Additional Agreements are collectively referred to as the "Project Agreements"); and

WHEREAS, the Board of Directors of the Company deems it advisable and in the best interests of the Company that LVC II enter into the Project Agreements to move forward with the development of the LVC II Facility, the total cost of which is currently estimated to be ONE HUNDRED NINETY NINE MILLION ONE HUNDRED TEN THOUSAND dollars (US\$199,110,000); and

WHEREAS, the Board of Directors of the Company deems it advisable and in the best interests of the Company that approvals be granted, as set forth below, in connection with LVC II's development of the Project;

NOW, THEREFORE, IT IS RESOLVED, that the appropriate officers of the Company, Enron North America Corp. ("ENA"), and/or LVC II be, and hereby are, authorized to execute, deliver, and perform or cause to be executed, delivered and performed, the obligations of the Project Agreements;

RESOLVED FURTHER, that all actions heretofore taken by any officer or representative of the Company or its affiliates related to or in connection with the transactions contemplated by these resolutions be, and hereby are, adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the officers, directors, and authorized legal representatives of the Company, ENA and LVC II be, and hereby are, authorized to execute and deliver such other certificates, powers of attorney, affidavits, agreements, assignments, documents, guarantees, and instruments as are required in connection with the Project;

RESOLVED FURTHER, that the Chairman of the Board, any Vice Chairman of the Board, the President, any Managing Director, or any Vice President (including any Executive Vice President, Senior Vice President, or Vice President), the Treasurer or any Deputy Treasurer of the Company and its counsel be, and each hereby is, authorized, empowered, and directed (and any one of them acting alone) to take or authorize to be taken any and all such further action, to amend, execute, and deliver all such further

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instruments and documents, for and in the name and on behalf of the Company or its affiliates, under their respective corporate seals or otherwise, and to pay or cause to be paid all such expenses as in their discretion appear to be necessary or desirable to carry into effect the purposes and intentions of this and each of the foregoing resolutions; and

RESOLVED FURTHER, that on or before June 15, 2001, an appropriate officer of the Company or ENA shall certify to the Office of the Chairman of the Company the occurrence or non-occurrence of the Conditions, and if such certification specifies the non-occurrence of either or both of the Conditions, then, without further action of the Board or the Office of the Chairman such officer may rescind these resolutions, in which case they shall be deemed null and void and the approvals contained in these resolutions will no longer be effective.

RESOLVED FURTHER, that Jeffrey K. Skilling be, and hereby is, constituted under Section 3, Article IV of the Company's Bylaws with full power and authority on behalf of the Board (except as otherwise contemplated by Section 6, Article IV of the Company's Bylaws) to:

- (a) Settle and approve the terms and authorize execution on behalf of the Company or its affiliates of such additional documents relating to the transaction undertaken or proposed to be undertaken by the foregoing resolutions as may be required or necessary in order to enable the Company and its affiliates to fulfill their respective obligations in connection with the foregoing resolutions;
- (b) Pay or authorize the payment of all fees, expenses, or charges incurred by or on behalf of the Company or its affiliates in connection with the transactions contemplated by the foregoing resolutions, including (but without limitation) the fees and expenses of the Company's and its affiliates' financial, legal, and professional advisers; and
- (c) Take any and all such further action as he shall deem necessary or desirable in connection with the transactions contemplated by the foregoing resolutions.

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EC004403902

Agenda Item 5e

EC004403903



Cuiaba Integrated Energy Project

Enron Board Presentation

April 30, 2001

EC004403904

Cuiaba Integrated Energy Project

History of Enron's Approval

- **Nov. 1997** Original Board approval of the Project provided authorization to construct the project but did not explicitly provide approval to execute the financing documents.
- **Sept. 1999** Obtained approval to sign loan documents.
- **July 2000** Obtained approval to provide contingent support required for financing and to purchase Transredes' interest in the Integrated Project.
- **Aug. 2000** Obtained approval of guarantees required by lenders in connection with financing.
- **Dec. 2000** Obtained approval of additional equity funds in the amount of ~~\$229.4~~ ^{299.6} million for a total of \$441 million prior to financial close and a total of \$227.5 million after financial close.

Cuiaba Integrated Energy Project

- **Integrated Project is 99% complete**
- **Remaining:**
 - » **Ridges directional drilling**
 - » **Pipeline tie-ins and commissioning**
 - » **Power Plant commissioning on gas**
- **Plant is currently operating on Diesel**
- **The Project costs have increased due to:**
 - » **Complications with construction in the ridges and associated delay costs**
 - » **Inclusion of all contested EECC change orders**
- **Requested Enron funding includes \$82.8 million for Shell's potential non-participation above the \$620 million budget.**

EC004403906

Cuiaba Integrated Energy Project

Total Project Cost and Requested Increase

| | <u>Nov. '97</u> | <u>Sept. 99</u> | <u>Dec. 00</u> | <u>May 01</u> |
|---------------------------------------|-----------------|-----------------|-----------------|------------------------|
| Original Project Costs | \$ 475.0 | \$ 473.0 | \$ 473.0 | \$ 473.0 |
| Financing Costs | | \$ 42.0 | \$ 47.0 | \$ 62.0 |
| Subtotal | <u>\$ 475.0</u> | <u>\$ 515.0</u> | <u>\$ 520.0</u> | <u>\$ 535.0</u> |
| Incremental Costs | | | | |
| Turnkey and Other Construction | | \$ 25.0 | \$ 64.0 | \$ 144.0 |
| Ridges | | \$ 13.0 | \$ 22.0 | \$ 41.0 |
| Environmental | | \$ 20.0 | \$ 27.0 | \$ 33.0 |
| Third party Dev/Other Financing | | \$ 41.0 | \$ 39.0 | \$ 47.0 |
| Other Costs and Contingencies | | <u>\$ 6.0</u> | <u>\$ 15.0</u> | <u>\$ 7.0</u> |
| Total Project Cost | <u>\$ 475.0</u> | <u>\$ 620.0</u> | <u>\$ 687.0</u> | <u>\$ 807.0</u> |
| Total Project Cost Increase | | \$ 145.0 | \$ 212.0 | \$ 332.0 |
| Incremental Increase | | | \$ 67.0 | \$ 120.0 |
| Working Capital/ Environmental | | | | <u>\$ 7.8</u> |
| Total Increase | | | | <u><u>\$ 127.8</u></u> |
| Enron's Share | | | | <u>\$ 45.6</u> |

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| | |
|-------------------------|-------------|
| Enron IRR | |
| Total Investment | 5.4% |

Cuiaba Integrated Energy Project

Sources and Uses of Funds

| | Budget @ Nov. 1997 | Budget @ Sept. 1999 | Budget @ Dec. 2000 with Debt | Budget @ Dec. 2000 All Equity | Budget @ May 2001 with Debt | Budget @ May 2001 All Equity |
|---------------------------------------|-----------------------|------------------------|---------------------------------|----------------------------------|--------------------------------|---------------------------------|
| Sources | | | | | | |
| Senior Funding | \$ 346.5 | \$ 365.0 | \$ 365.0 | \$ - | \$ 365.0 | \$ - |
| SUDAM Financing | | \$ 30.0 | \$ 27.7 | \$ - | \$ - | \$ - |
| Partners' Capital | \$ 46.6 | \$ 98.9 | \$ 107.8 | \$ 240.7 | \$ 112.3 | \$ 224.3 |
| Enron Capital Exposure | \$ 81.9 | \$ 125.2 | \$ 187.5 | \$ 401.2 | \$ 188.2 ^c | \$ 441.2 |
| IDC: Enron portion | | | | | \$ 20.9 | \$ 20.9 |
| December Board Contingency | | | \$ 40.0 ^A | \$ 40.0 | | |
| This Request | | | | | | |
| Enron Share | | | | | \$ 45.6 | \$ 45.6 |
| Shell Non-participation (Potential) | | | | | \$ 82.8 | \$ 82.8 |
| Total | \$ 475.0 | \$ 619.1 | \$ 728.0 | \$ 681.9 | \$ 814.8 | \$ 814.8 ^B |
| Uses | | | | | | |
| Construction Costs | \$ 475.0 | \$ 619.1 | \$ 688.0 | \$ 641.9 | \$ 807.0 | \$ 807.0 |
| Working Capital/Environmental Program | \$ - | \$ - | | \$ - | \$ 7.8 | \$ 7.8 |
| December Board Contingency | \$ - | \$ - | \$ 40.0 ^A | \$ 40.0 | \$ - | \$ - |
| Total | \$ 475.0 | \$ 619.1 | \$ 728.0 | \$ 681.9 | \$ 814.8 | \$ 814.8 ^B |

^A BOD granted an additional \$40 million for Shell non-participation and contingency.

^B Hermes fee refund not included since timing of such (if it occurs) is Q1 2002.

^C Enron to receive between \$231-\$253 million from senior funding (depending upon level of Shell non-participation).

Cuiaba Integrated Energy Project

Recommendation

- **Approve additional Enron equity funds required for the completion of the Cuiaba Project in the amount of US\$ 45.6 million as Enron's contribution and in the amount of US\$ 82.8 million in the event Shell does not participate in the increase, for an aggregate total equity investment in the Cuiaba Project by ESA and/or its affiliates in the amount of US\$ 569.6 million.**

Add'l \$10 MM to JKS

ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: Cuiabá Additional Equity II

Counterparty: Cuiabá Integrated Power Project
("Cuiabá")

Business Unit: Enron Global Assets

Business Unit Originator: Peter Weidler

☐ Public ☒ Private

☐ Merchant ☒ Strategic

☒ Conforming ☐ Nonconforming

Date DASH Completed: 4/20/01

RAC Underwriter/Analyst: Michael Tribolet/Andre Cangucu

Investment Type: Equity

Capital Funding Source(s): Balance Sheet

Expected Closing Date: N/A

Expected Funding Date: Ongoing

Board Approval: ☒ Pending ☐ Received ☐ Denied ☐ N/A

RAC Recommendation: ☒ Proceed with Transaction ☒ Returns below Capital Price ☐ Do not Proceed

APPROVAL AMOUNT REQUESTED (in USD millions)

Capital request \$128.4*

* Assumes Shell will not fund over \$621 million project budget.

EXPOSURE SUMMARY (in USD millions)

| | |
|--|-----------------|
| This request | \$ 128.4 |
| Previously approved capital commitment | \$ <u>441.2</u> |
| Total Capital Exposure | \$ <u>569.6</u> |

This does not include \$806.85 million of contingent sponsor support (indemnities to lenders to obtain project financing).

TRANSACTION SUMMARY

The Cuiabá I integrated project consists of a 480 MW power plant, located in the city of Cuiabá in the Brazilian state of Mato Grosso (EPE), a 363 km pipeline in Bolivia (GasBol) and a 278 km pipeline in the Brazilian state of Mato Grosso (GasMat). The current ownership structure (after projected buyout of LJM's 13% interest in EPE) of the project is shown below (see Exhibit I).

| | <u>GasBol</u> | <u>GasMat</u> | <u>EPE</u> |
|-------|----------------|----------------|-----------------|
| Enron | 50.00% | 56.25% | 71.875% |
| Shell | 50.00% | 43.75% | 28.125% |
| Total | <u>100.00%</u> | <u>100.00%</u> | <u>100.000%</u> |

Currently the power plant is in commercial operations in combined cycle mode using diesel fuel. The Brazilian government is reimbursing the cost of the diesel fuel.

As of April 17, 2001, the project is physically complete with the exception of approximately 2,006 meters of GasMat pipeline construction through two environmentally sensitive ridges. This construction is being conducted with directional drilling. Pilot holes have been completed on both ridges. The remaining work involves the enlargement of the pilot holes to 30 inches so the 18-inch pipe can be pulled through. Once the pipeline is complete, the power plant will be commissioned on gas. The schedule calls for the pipeline to be mechanically complete by September 21, 2001, and the power plant to be fully commissioned on gas by January 10, 2002.

The Cuiaba project has experienced a series of cost increases from the original \$475 million projected cost in November 1997. (see Exhibit II) The capital budget required to complete the project has increased from the \$688 million most recently authorized in December 2001 to a total of \$814.8 million. This increase includes all costs expected to be incurred by EE&CC (as the turnkey contractor for the project) regardless of whether or not they are be passed on to the project and a contingency equal to 5% of the remaining funds to be spent. The increase is summarized below (refer to Exhibit III for additional details):

EC004403910

**Cuiabá Integrated Project
Summary Budget Comparison**

| | Shell \$621 million Budget | Enron approved DASH from Dec. 2000 | This Request | Increase from December 2000 DASH |
|-----------------------------------|----------------------------------|---|-----------------|---|
| Turnkey and Change Orders | 420.9 | 449.5 | 502.2 | 52.7 |
| Ridges | 12.9 | 22.2 | 41.0 | 18.8 |
| Other Constructions | 39.3 | 58.8 | 84.8 | 26.0 |
| Financing Costs/ Legal/ Insurance | 106.8 | 110.3 | 114.6 | 4.3 |
| Development Costs/ Mobilization | 36.4 | 35.7 | 42.6 | 6.9 |
| Spare Parts | 4.6 | 4.8 | 4.7 | -0.1 |
| Diesel Burned | 0.0 | 6.6 | 10.1 | 3.5 |
| Contingency | 0.0 | 0.0 | 7.0 | 7.0 |
| Total Construction | <u>620.9</u> | <u>688.0</u> | <u>807.0</u> | <u>119.1</u> |
| Working Capital | 0.0 | 0.0 | 3.8 | 3.8 |
| Environmental funding | 0.0 | 0.0 | 4.0 | 4.0 |
| Total Costs | <u>620.9</u> | <u>688.0</u> | <u>814.8</u> | <u>126.9 *</u> |

* See reconciliation on page 3

The primary source of the cost increase is the delay in completing the Brazilian pipeline, compounded by complications drilling the ridges (see exhibit IV for additional details by project entity). The delay in completion caused commensurate increases in the owner's and the contractor's costs.

Enron's proportionate share of the budget increase requires additional funding of \$81.7 million (including \$4.0 million for contingency). This increase includes Enron's proportionate share of the \$18.6 Million of fees paid to KFW which will be refunded if the project does not achieve financial close. Shell is expected to protest between \$30 million and \$50 million of change orders from EECC and other costs. They will argue that these costs should have been included in the original turnkey price. To the extent Shell prevails in this dispute, Enron will solely bear these costs on its own and they will not be charged to the project. Shell may also elect to not participate in the budget increase above the \$621 million level approved by Shell in July 2000. In this event, Shell's ownership in the Brazilian project companies will be diluted by the amount of their non-participation as noted below. In GasBol, the amounts over the Shell Approved Budget would be provided by an "Excess Shareholder Loan" that bears interest at 16% and has preferential rights over any dividend payments to any shareholder.

**Shell Dilution
Failure to Fund over \$621 million Budget**

| | Full Participation | Dilutes @ \$621 Million |
|--------|--------------------|----------------------------|
| EPE | 28.13% | 26.68% |
| GasMat | 43.75% | 23.32% |
| GasBol | 50.00% | 50.00% |

Enron's total exposure to Shell's non-participation in the budget increase and disallowance of costs is \$82.8 million. Lastly, due to the delay in the completion of the pipeline, the companies will experience some negative operating cash flow which will be required to be provided by the owners. The increase in required funds is partially offset by the incremental \$40 million

RAC Deal Approval Sheet

Deal Name: Cuiabá Additional Equity II

provided by the Board in the December 2000 meeting. In total, Enron Global Assets is requesting \$ 128.4 million of funds to complete the project. The breakdown of the request is detailed below;

| (USD millions) | <u>EPE</u> | <u>GaMat</u> | <u>GasBol</u> | <u>Total</u> |
|-----------------------------------|------------|--------------|---------------|--------------|
| Cost to Complete | \$ 345.1 | \$ 122.8 | \$ 153.1 | \$ 621.0 |
| Operational cash flow | \$ (11.0) | \$ - | \$ - | \$ (11.0) |
| Net Cash Per \$621 million Budget | \$ 334.1 | \$ 122.8 | \$ 153.1 | \$ 610.0 |
| Equity Participation | 28.125% | 43.75% | 50.00% | |
| Shell funding | 94.0 | 53.7 | 76.5 | 224.3 |
| Capital Exposure this Dash | \$ 391.6 | \$ 233.0 | \$ 190.3 | \$ 814.8 |
| Less: Enron IDC | \$ (14.2) | \$ (3.5) | \$ (3.2) | \$ (20.9) |
| Total Enron Capital Exposure | \$ 283.4 | \$ 175.7 | \$ 110.5 | \$ 569.6 |
| Previously approved | | | | \$ 441.2 |
| This Request | | | | \$ 128.4 |

| (USD millions) | <u>EPE</u> | <u>GaMat</u> | <u>GasBol</u> | <u>Total</u> |
|--------------------|------------|--------------|---------------|--------------|
| Construction Costs | \$ 391.6 | \$ 231.9 | \$ 183.5 | \$ 807.0 |
| Operational Loans | \$ - | \$ 1.0 | \$ 2.8 | \$ 3.8 |
| FCBC Funding | \$ - | \$ - | \$ 4.0 | \$ 4.0 |
| Total Cost | \$ 391.6 | \$ 233.0 | \$ 190.3 | \$ 814.8 |

Shell is scheduled to seek their Board of Director's authorization prior to May 15, 2001 and after receiving this authorization Enron and Shell will negotiate how the cost overruns are apportioned between the project and the contractor (EE&CC). Additionally, the economics assume actual capital spending does not exceed \$814.8 Million.

There are three significant issues between EPE and Furnas, the offtaker of power.

1. Furnas has refused to sign the consent to assignment required by the PPA. This consent is condition for financing.
2. Regulations promulgated in mid-1998 (a year after Enron won the bid) require power generators to enter into grid interconnection agreements which, if applicable would expose the project to penalties and dispatch conditions not envisioned and priced in the PPA. These include: 1) a requirement to purchase backup energy at the prevailing spot prices when the plant is not available; 2) the absorption of future changes in transmission costs; 3) liability for civil-damages due to electricity outages caused by other generators. This exposure is volatile and unpredictable. The existing PPA with Furnas provides the power plant with minimum penalties for not meeting its availability requirements and also protects the plant from anything not within its direct control. Furnas wishes to shift this exposure to EPE. The regulator recently fined EPE for non-compliance with this regulation. The fine, now being contested, if not reversed, creates an event of default under which EPE can terminate the contract and force Furnas/Elektrobras to buy the plant.
3. EPE has significant claims of Force Majeure due to governmental intervention and /or inaction. Under the PPA, the additional cost directly associated with these claims may be recoverable through a tariff increase.

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RAC Deal Approval Sheet

Deal Name: Cuiabá Additional Equity II

Ultimately, these issues will result in one of three outcomes, 1) The regulator will agree the PPA takes precedent over the new rules and Furnas complies with the PPA resulting in the appropriate conditions to achieve financial close and partial recovery of the cost overruns, or 2) the PPA is mutually renegotiated, or 3) the PPA is terminated and Enron retains the plant and resells the capacity to other off-takers or alternatively Enron sells the plant to Furnas.

Gas Supply Issues: The Gas Supply Agreement with YPF (GSA) can be terminated by buyer or seller if all conditions precedent are not met by May 4, 2001. The non-fulfilled conditions precedent are: (i) occurrence of Financial Closing with respect to the integrated project; and (ii) completion of all Commissioning Activities on gas. Enron has verbally notified YPF that it intends to terminate the GSA and is now in the process of renegotiating the GSA with YPF to obtain: (i) gas contract pricing consistent to current Bolivian gas market conditions and, (ii) the flexibility required to address the current situation of the PPA (see above). The PV differential between the pricing in the YPF GSA and current Bolivian gas market conditions is between \$30 and \$50 Million. YPF has not shown a sense of urgency to come to terms and the deal team is actively soliciting alternate suppliers.

TRANSACTION SOURCES AND USES OF FUNDS (in millions)

Assuming all equity financed

| | Sources | | Uses |
|-----------------------------------|---------|-----------------------|---------|
| This request | \$128.4 | Construction costs | \$807.0 |
| Enron capital previously approved | 441.2 | Working Capital | 3.8 |
| Interest to Enron on IDC | 20.9 | Environmental program | 4.0 |
| Shell capital | 224.3 | | |
| Total | \$814.8 | Total | \$814.8 |

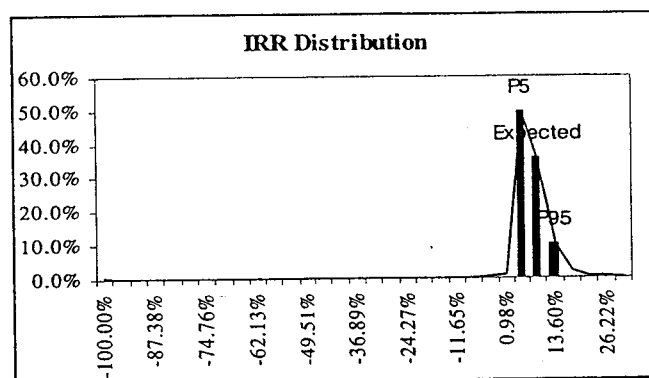
RETURN SUMMARY

RAC's probabilistic models used a capital price of 22.0%. Assuming no Shell participation, but a dilution of their equity, the project has a negative NPV of (\$244,052,000).

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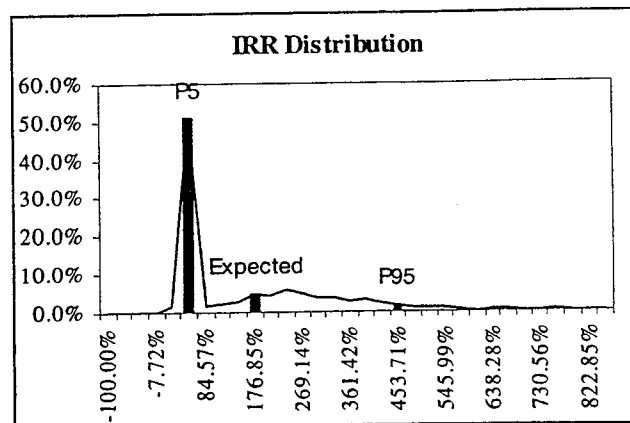
| Probabilistic DCF by Component | Cumulative IRR | PV @ Capital Price |
|--------------------------------|----------------|--------------------|
| Cash Outflows + Outstanding | NA | \$ (569,184) |
| Fees | -19.00% | \$ (23,678) |
| Ongoing Cash Flows | 5.38% | \$ 348,810 |
| Terminal Value | 5.38% | \$ - |
| Total | 5.38% | \$ (244,052) |

Semivariance - +/- 1.352



Despite the large cost overruns, RAC also ran a present value scenario to measure the go-forward economics, from the \$621 million budget level, treating past capital contributions as sunk costs. A present value of positive \$131,113,000 results.

| Probabilistic DCF by Component | Cumulative IRR | PV @ Capital Price |
|--------------------------------|----------------|--------------------|
| Cash Outflows + Outstanding | NA | \$ (194,019) |
| Fees | -14.20% | \$ (23,678) |
| Ongoing Cash Flows | 66.57% | \$ 348,810 |
| Terminal Value | 66.57% | \$ - |
| Total | 66.57% | \$ 131,113 |

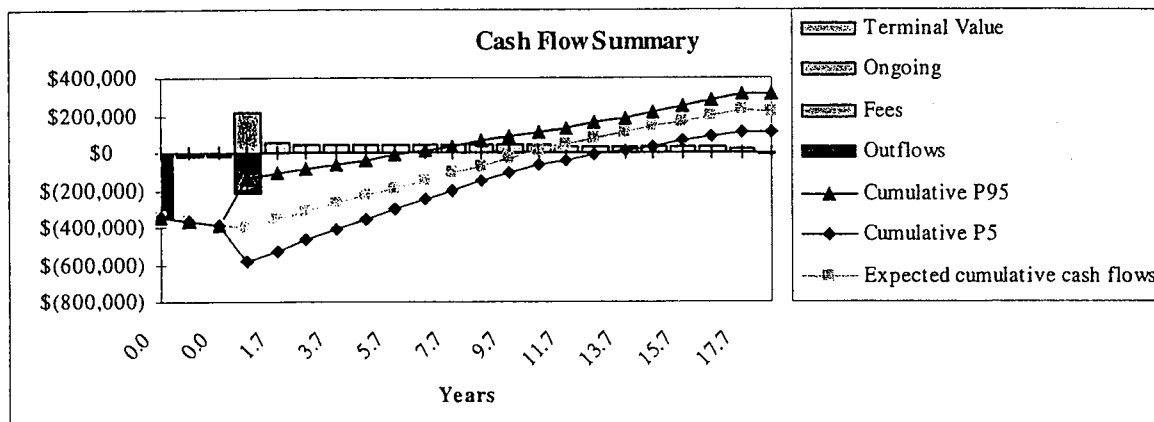


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To illustrate the sensitivities to the different scenarios, RAC also ran a deterministic model. Assuming Shell did not contribute additional equity and Enron was unable to dilute Shell, the NPV fell another \$18,886,000. However, if Shell participated fully in the equity contribution, the NPV would increase \$48,169,000

CASH FLOW SUMMARY

The net present value scenario is presented below:



TRANSACTION UPSIDES/OPTIONALITY

The deal team is actively negotiating both the PPA and the Gas Supply Agreement. As much of the cost overruns as possible will be recovered through reductions in the gas supply costs and increases in the power tariff. However, even if the deal team is successful in reducing the cost gas to market and increasing the tariff as permitted by the PPA, the project returns will be below Enron's capital price.

The initial project concept contemplated a low cost expansion of the pipeline. Additional generation of sufficient capacity to recover the economics of the pipelines (Cuiabá II) will require a new 800 KM, 500 kV transmission line. The cost of this line is between \$250 Million and \$400 Million. The line is under study by the Government as an strategic investment, but at this date a timetable has not been established for its construction.

EXIT STRATEGY

While this project has a positive expected internal rate of return is unlikely that Enron will be able to sell either the power plant or the Brazilian pipeline at a price that exceeds its book value of these assets.

Should the OPIC and KFW \$365 Million financing ultimately close, Enron may sell its interest in the Cuiabá Project to third parties, subject to certain conditions and hold restrictions contained in the OPIC and KFW financing. Specifically, Enron must maintain at least 25% ownership (direct or indirect) in each of the project companies and Enron and/or Shell must maintain control (greater than 50%) of each of the project entities. Given the foregoing, Enron may sell down to a 25% interest in each of the operating companies to a US domestic or foreign entity so long as Enron and/or Shell maintain control. Lender consent would be required for Enron to completely exit the project and the buyer would need to be a US entity pursuant to OPIC's US sponsorship requirements. In addition, Shell has a right of first refusal with respect to any sale by Enron of its interest in the project entities.

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RISK MATRIX

| DESCRIPTION | MITIGATION/COMMENTS |
|---|---|
| PPA is terminated | If the PPA is terminated due to a Furnas default, Enron has the option of retaining ownership or sell the plant to Furnas for approximately \$360 Million. This creates approximately \$211.5 million of value for Enron's investment in this project relative to Furnas performing pursuant to the PPA. This is due to the lower discount rate of 11.5% used to calculate the damage and that only revenue is used for this calculation. Once the prepayment is made, Furnas/Elektrobras would be obligated to assume the project contract including the gas supply agreement. This process is likely to be contested by Furnas and involve a lengthy process with the decision ultimately being made by an arbitrator, in Paris, France, with the award being enforced by the Brazilian court. |
| Senior debt financing does not occur | Cost to obtain financing has been capitalized and is included in the \$814.8 million budget. If 3 rd party financing is not achieved, such costs (total of \$30.3 million) would have to be written-off. |
| Construction risk & continued cost overruns | <p>All currently anticipated cost overruns of completing the project are captured in the capital request presented in this DASH. While additional overruns are not impossible, EPE and GasBol are complete. GasMat is 91% complete in terms of dollars expensed vs. dollars anticipated to complete.</p> <p>There were previously mechanical issues with the Siemens turbines. If gas is not supplied by year-end 2001, the Siemens performance guaranty will lapse.</p> |
| Gas Supply | <p>The Gas Supply Agreement is under renegotiation, if YPF does not react in a timely manner and/or is not willing to achieve a reasonable compromise, then Enron intends to terminate the contract and seek alternative suppliers. There are over 50 Tcf of certified reserves in Bolivia and only 7 tcf of market, however, in Bolivia, certified reserves includes probable reserves. Proved, uncommitted reserves total approximately 2.5 tcf and there are a limited number of producers with which to negotiate replacement supply. This project requires 428.7 Tcf over the 19 year PPA. The current contract price of \$1.36 per MMBTU compares to current market price of \$1.00 per MMBTU.</p> <p>Results of a solicitation for 6-month gas supply produced very favorable results and Enron has purchased a 12-year gas supply of lesser quantity at a very favorable price (\$1.00 per MMBTU). There is a risk that YPF will initiate an arbitration process in the event Enron terminates the agreement.</p> |

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| | |
|-----------------|--|
| Partner funding | <p>There will be a significant debate with Shell on who is responsible for the cost overruns. This DASH assumes that Shell will not fund any project expenditures above \$621 million project budget that it approved in July 2000. Shell's position is that some of the proposed change orders are included in the EE&CC turnkey contract that was budgeted in total in the \$621 million budget.</p> <p>Per the Shareholder Agreements, in the event that Enron/Shell can not agree on the Budget, the following occurs:</p> <ul style="list-style-type: none"> Brazilian project companies (EPE and GasMat): Shell percentage shall be reduced (I) the total amount contributed by Shell to such project entity divided by (II) the total amount contributed to such project entity by all its shareholders. Bolivian project company (GasBol): Enron would fund the Shell portion of the increase via "Excess Shareholder Loans" that accrue interest at 16% per annum. The principal and interest shall be repaid by GasBol prior to any distributions to any shareholders (either dividends, repayment of capital, etc.) |
| Legal risk | <p>* The legal risks with respect to the PPA with Furnas and the Shell funding are very significant, and the outcome is difficult to predict</p> |

KEY SUCCESS FACTORS

| | NA | Poor | Excellent |
|--------------------|----|------|-----------|
| Core Business | | X | |
| Strategic Fit | | X | |
| Upside/Optionality | | | X |
| Management | NA | | |
| Risk Mitigation | | X | |

OTHER RAC COMMENTS:

This DASH request assumes Shell is unwilling to approve change orders over the \$621 million project cost level. To the extent that Shell balks at additional funding over this level, this DASH request is for the funding of EE&CC's construction loss or EGA's increased project costs and ownership.

Assuming no incremental capital contribution by Shell, the net present value of the project is a negative (\$244,052,000) at a capital cost of 22.0%. While the net present value is hugely negative, the present value of this incremental investment decision is a positive \$131,113,000. As well, depending on how the scope of change orders are interpreted by Shell and Enron, EE&CC may be contractually obligated to finish the work.

MILESTONES:

- Complete pipeline on Ridge 10
- Gas contract renegotiated
- Pipeline mechanically complete
- IBAMA operating license for GasMat
- Gas available at plant
- PPA status
- Plant Commissioned on Gas


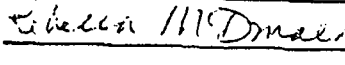
July 11, 2001
 September 21, 2001
 September 21, 2001
 October 6, 2001
 November 11, 2001
 December 31, 2001
 January 10, 2002

EC004403916

RAC Deal Approval Sheet

Deal Name: Cuiabá Additional Equity II

APPROVALS

| | Name | Signature | Date |
|------------------------|----------------------------------|---|----------------|
| Region Originator | <u>Peter Weidler</u> | <u></u> | <u>4/21/01</u> |
| CEO - EGA | <u>Rebecca McDonald</u> | <u></u> | <u>4/22/01</u> |
| EWS Legal | <u>Mark Haedicke</u> | <u></u> | <u></u> |
| RAC Management | <u>Dave Gorte</u> | <u></u> | <u></u> |
| Enron Global Finance | <u>Andy Fastow or Ben Glisan</u> | <u></u> | <u></u> |
| Office of the Chairman | <u>Jeffrey Skilling</u> | <u></u> | <u></u> |

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EC004403917

Deal Name: Cuiabá Additional Equity II

APPROVALS

Region Originator

Peter Weidler

CEO - EGA

Rebecca McDonald

EW Legal

Mark Haedjke

RA Management

Dave Gorte

Enr Global Finance

Andy Fastow or Ben Glisan

Office of the Chairman

Jeffrey Skilling

Signature

Date

Peter Weidler

4/20/01

* *Mark E. Haedjke*
Dave B. Gorte

20 April 2001

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* see note on p.7.

EC004403918

APPROVALS

Region Originator
CEO - EGA
EWS Legal
RAC Management
Enron Global Finance
Office of the Chairman

Name

Peter Weidler
Rebecca McDonald
Mark Haedicke
Dave Gorte
Andy Fastow or Ben Glisan
Jeffrey Skilling

Signature

Date

Peter Weidler 4/20/01
* *Mark Haedicke*
Dave Gorte 20 April 2001
Ben Glisan (Bum - verbal authorization)
Jeffrey K. Skilling 24 Apr/01

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* see note on p.7.

EC004403919

RAC Deal Approval Sheet

Deal Name: Cuiabá Additional Equity II

Global Finance Summary (addendum to DASH)**1. Transaction Summary**

| | Amount (\$ millions) |
|--|----------------------|
| Total Deal/Project Capital Commitment through Completion | \$569.8 |
| Less: Financings (OPIC/KfW project financing) | |
| Less: Syndications | -0- |
| Net Enron Investment (funding to date plus future funding to Completion) | \$569.8 |

2. Investment terms and pricing:☐ Market ☐ Above Market ☒ Below Market

Describe (if necessary):

[Investment returns below RAC capital pricing for Bolivia/Brazil investments.]

3. Financing terms and pricing:☒ Market ☐ Above Market ☐ Below Market

Describe (if necessary): OPIC (10.71%, 15 years), KfW three tranches (7.04%, 15 years, 7.48%, 15 years and 9.27%, 11 years). Negotiations with the Lenders to extend their commitments until year end 2001 should be concluded favorably by the end of April, 2001.

4. Legal or practical liquidity restrictions:☐ Unrestricted ☐ Legally Restricted ☐ Practically Restricted

Describe (if necessary): Enron to maintain 25% minimum hold in project (OPIC requirement) and Shell and Enron must maintain control of project (OPIC/KfW requirement).

5. Any recourse to Enron (other than investment):☐ Recourse ☐ No Recourse

Describe (if any): Debt becomes recourse to Enron (pursuant to put agreement) if replacement fuel arrangement satisfactory to OPIC/KfW lenders is not delivered before March 2003.

6a. Business unit intent to syndicate:☐ None ☐ Partial ☐ All

Describe (if necessary): See "hold" comment below.

6b. Intended Enron hold period:

Long-term hold in strategic project. Business unit may sell all or a portion of its investment in the Cuiabá Integrated Project, however, timing an amount of sell down unknown presently. To sell down below 25%, consent needed from lenders (OPIC/KfW) and must be sold to party satisfying OPIC U.S. sponsorship requirements per charter.

6c. Likely Syndication Market:☐ Industry/Strategic Partner ☐ Direct Private Equity☐ Capital Markets☐ JEDI 1☐ JEDI 2☐ Enserco☐ LJM 1 or 2☐ Condor☐ Other:


OPIC/KFW

☐ Margaux

\$365 million

6d. Is this a JEDI 2 "Qualified Investment"?☐ Yes☒ No

Global Finance Representative:


Signature

PETER N. ANDERSON
Name (Printed)

4/23/01
Date

Name: Peter Anderson

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EXHIBIT I - PROJECT DESCRIPTION

Project Description:

The Cuiabá Project is an integrated energy project comprised of a 480MW gas-fired combined cycle power plant in the state of Mato Grosso in Western Brazil and two connected pipeline segments totaling 641 km from Bolivia to Brazil which will supply gas to the power plant. The integrated power plant and pipeline project consists of three individual project companies: (1) Gas Oriente Boliviano (GasBol) – the Bolivian pipeline segment, (2) GasOccidente do Mato Grosso (GasMat) – the Brazilian pipeline segment and (3) Empresa Produtora Energia (EPE) – the thermal power plant. Transredes, S.A. (TRSA) was originally a participant in the project along with Enron and Shell, however given Transredes limited liquidity, they sold their interests to Enron and Shell. Gas will be supplied to the plant by Transborder Gas Services (TBS) which has contracted for gas with YPF and Transredes, GTB, GasBol, and GasMat for gas transportation.. Gas will be transported by the YABOG (Transredes) and Bolivia-Brazil (GTB) pipelines and then by GasBol and GasMat to the plant.

The current ownership structure of the Cuiabá Project is shown below.

| | <u>GasBol</u> | <u>GasMat</u> | <u>EPE</u> | <u>TBS</u> |
|-------|----------------|----------------|----------------|----------------|
| Enron | 50.000% | 56.250% | 58.875% | 72.500% |
| LJM | 0.000% | 0.000% | 13.000%* | 0.000% |
| Shell | <u>50.000%</u> | <u>43.750%</u> | <u>28.125%</u> | <u>27.500%</u> |
| Total | 100.000% | 100.000% | 100.000% | 100.000% |

* Enron has entered into a definitive Agreement with LJM to purchase its share for \$13.2 MILLION plus cancellation of \$19.3 MILLION in debt. Deal expected to close by May 30, 2001, but could close earlier pending receipt of right of first offer waiver from Shell.

Pursuant to a 20 year PPA executed in May 1997 with Eletronorte and Eletrobras, 100% of EPE's output will be sold to Furnas, a regional generating company owned by Eletrobras, which will in turn sell the power to Cemmat, the local distribution company. In May 1999, the PPA was transferred directly to Furnas as part of the privatization process with no material changes to the PPA. Furnas' obligations for tariff adjustments and revenue protection provided for in the PPA (including inflation and exchange rate adjustments) are guaranteed by Eletrobras.

The project is being constructed by Superior Construction Company, an Enron affiliate, under a single turnkey EPC contract which guarantees the completion of the power plant and pipelines. The major subcontractor under the EPC contract is Siemens A.G., which provided the two combustion turbines and one steam generator required. If the guaranteed capacity is not available on due dates or capacity tests fail to reflect guaranteed levels as set forth in the PPA, EPE will become liable for penalties for delay damages. Penalties are essentially offset by the guaranties for completion and performance contained in the turnkey EPC contract.

As of 30 January 2001, combined cycle commissioning on diesel fuel to 480 MW was completed. It is foreseen that once natural gas is available at the site Siemens will return to complete combined cycle commissioning on natural gas. That effort scheduled to commence in November 2001 and will last an estimated sixty (60) days. Commencement of combined cycle power operations on natural gas is scheduled for January 2002. The Bolivian pipeline is 100% complete and line packed while the Brazilian pipeline with the exception of the two remaining ridges is 100% complete. Gas is scheduled to arrive at the plant in November 2001. The \$365 Million of financing committed by OPIC and KFW remains available subject to the satisfaction of several condition precedent's. The most problematic appears to be the Furnas' consent, referred to above, which at this point has no resolution in sight. OPIC has confirmed that it is willing to begin closing due diligence at any point that we feel that the issue with Furnas is moving to resolution.

EC004403921

EXHIBIT II
Project Cost History

Original - November 1997

| | | <u>EPE</u> | | <u>GasMat</u> | | <u>GasBol</u> | | Total |
|------------------------|----|------------|----|---------------|--|---------------|----|---------|
| Capital cost (USD 000) | \$ | 280,000 | \$ | 195,000 | | <included | \$ | 475,000 |

July 1999

| | | <u>EPE</u> | | <u>GasMat</u> | | <u>GasBol</u> | | Total |
|------------------------|----|------------|----|---------------|----|---------------|----|---------|
| Capital cost (USD 000) | \$ | 345,000 | \$ | 95,000 | \$ | 133,000 | \$ | 573,000 |

July 2000

| | | <u>EPE</u> | | <u>GasMat</u> | | <u>GasBol</u> | | Total |
|------------------------|----|------------|----|---------------|----|---------------|----|---------|
| Capital cost (USD 000) | \$ | 342,371 | \$ | 124,218 | \$ | 152,538 | \$ | 619,127 |

December 2000

| | | <u>EPE</u> | | <u>GasMat</u> | | <u>GasBol</u> | | Total |
|------------------------|----|------------|----|---------------|----|---------------|----|---------|
| Capital cost (USD 000) | \$ | 323,487 | \$ | 151,599 | \$ | 166,787 | \$ | 641,873 |

April 2001

| | | <u>EPE</u> | | <u>GasMat</u> | | <u>GasBol</u> | | Total |
|------------------------|----|------------|----|---------------|----|---------------|----|---------|
| Capital cost (USD 000) | \$ | 391,600 | \$ | 232,900 | \$ | 190,300 | \$ | 814,800 |

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EXHIBIT III
Construction Budget

Cuiabá Integrated Power Project
Summary Construction Budget
(US\$ millions)

| | Approved Budget @ 12-12-2000 | | | | This Request | | | | Increase | | | |
|---------------------------------|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|----------------|
| | EPE | GasMat | GasBol | Total | EPE | GasMat | GasBol | Total | EPE | GasMat | GasBol | Total |
| | <u>\$\$\$</u> | <u>\$\$\$</u> | <u>\$\$\$</u> | | <u>\$\$\$</u> | <u>\$\$\$</u> | <u>\$\$\$</u> | | <u>\$\$\$</u> | <u>\$\$\$</u> | <u>\$\$\$</u> | |
| Turnkey and Change Orders | \$245.9 | \$87.8 | \$115.9 | \$449.5 | \$258.8 | \$121.6 | \$121.8 | \$502.2 | \$13.0 | \$33.8 | \$5.9 | \$52.7 |
| Ridges | \$0.0 | \$22.2 | \$0.0 | \$22.2 | \$0.0 | \$41.0 | \$0.0 | \$41.0 | \$0.0 | \$18.8 | \$0.0 | \$18.8 |
| Other Construction | \$10.4 | \$20.7 | \$27.7 | \$58.8 | \$16.0 | \$33.9 | \$34.9 | \$84.8 | \$5.6 | \$13.1 | \$7.2 | \$25.9 |
| Financing Costs/Legal/Insurance | \$72.3 | \$19.0 | \$19.0 | \$110.3 | \$73.5 | \$22.7 | \$18.5 | \$114.6 | \$1.3 | \$3.6 | (\$0.5) | \$4.4 |
| Development Costs/Mobilization | \$20.1 | \$6.9 | \$8.7 | \$35.7 | \$27.3 | \$8.7 | \$6.6 | \$42.6 | \$7.1 | \$1.8 | (\$2.0) | \$6.9 |
| Spare Parts | \$4.6 | \$0.1 | \$0.1 | \$4.8 | \$4.5 | \$0.1 | \$0.1 | \$4.7 | (\$0.1) | \$0.0 | \$0.0 | (\$0.1) |
| Diesel Burned | \$6.6 | | | \$6.6 | \$10.1 | \$0.0 | \$0.0 | \$10.1 | \$3.5 | \$0.0 | \$0.0 | \$3.5 |
| Contingency | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$1.3</u> | <u>\$4.0</u> | <u>\$1.6</u> | <u>\$7.0</u> | <u>\$1.3</u> | <u>\$4.0</u> | <u>\$1.6</u> | <u>\$7.0</u> |
| Total | \$359.9 | \$156.7 | \$171.4 | \$688.0 | \$391.6 | \$231.9 | \$183.5 | \$807.0 | \$31.7 | \$75.2 | \$12.1 | \$119.0 |

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EC004403923

EXHIBIT IV – Budget Changes/Reconciliation

**Cuiaba Integrated Project
Construction Budget reconciliation
\$688 Budget to \$807 Budget
(US\$- Millions)**

| | | |
|--|----------------|-------------------------------|
| Construction Budget of 12/12/01 | | \$687.80 |
| Change Orders | \$33.40 | |
| Tax Adjustments | 14.7 | |
| FX Savings | 4.6 | |
| Ridges | 18.8 | |
| Diesel Burned | | |
| Owners Engineer | | |
| Right of Way/ Legal | | |
| Financing Delays | | |
| Owner Pesonnel Standby Costs | | |
| Additional Construction Costs | 25.7 | |
| Environmental Costs | 5 | |
| Consultant Fees | 4.2 | |
| Mobilization/ Startup Costs | 5.8 | |
| Contingency | 7 | |
| Total Increase | | <u>\$119.20</u> |
| Budget to Complete | | <u><u>\$807.00</u></u> |

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EC004403924

AGENDA ITEM 5(e)
(SUGGESTED FORM OF RESOLUTIONS)

WHEREAS, the Committee approved on November 14, 1997 that certain wholly-owned subsidiaries of the Enron South America LLC ("ESA"), including Enron do Brazil Holdings Ltd. and Enron Brazil Power Holdings I Ltd. (the "Project Participants") participated with Shell Cuiabá Holdings Ltd. and Shell Gas (Latin America) B.V. in the development and ownership of a 480-megawatt independent power plant in Cuiabá, Brazil and a 641km pipeline from Bolivia to Brazil, the Cuiabá Integrated Energy Project (the "Cuiabá Project" or the "Project"); and

WHEREAS, the Committee authorized on September 24, 1999 the Company or its designated affiliate to sign financing documents related to the Cuiabá Project;

WHEREAS, the Committee approved on August 8, 2000 the guarantees required by the lenders in connection with the financing of the Cuiabá Project;

WHEREAS, the Committee approved on December 12, 2000 spending of additional equity funds for an aggregate total equity investment in the Cuiabá Project by ESA and/or its affiliates in the amount of US\$441,174,000.00 prior to financial close and a permanent equity investment in the Cuiabá Project by ESA and/or its affiliates in the amount of US\$227,460,000.00 from and after financial close;

WHEREAS, the construction of the Cuiabá Project is almost complete;

WHEREAS, due to certain construction delays and cost related overruns related to environmental matters, the Cuiabá Project will require additional equity funding to complete construction prior to financial closing;

NOW, THEREFORE, IT IS RESOLVED, that ESA and its affiliates are authorized to spend additional equity funds required for the completion of the Cuiabá Project in the amount of US\$45,600,000.00 as Enron's contribution and in

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the amount of US\$82,800,000.00 in the event Shell does not participate in the increase, for an aggregate total equity investment in the Cuiabá Project by ESA and/or its affiliates in the amount of US\$569,600,000.00 prior to financial close;

RESOLVED FURTHER, that the directors, officers, and attorneys-in-fact of the Company and the Project Participants are hereby authorized, empowered, and directed (any one of them acting alone) to take any and all such actions necessary to execute and deliver all instruments and documents in support the Cuiabá Project, under corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions and that all actions heretofore taken by the directors, officers, and attorneys-in-fact of the Company and the Project Participants with respect to the transactions contemplated above be, in all respects, approved, confirmed, and ratified.

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

EC004403926

Agenda Item 5f

EC004403927

Divestiture of CEG/CEG-Rio Gas LDCs

**Presentation to the Enron Corp. Finance Committee
April 30, 2001**

EC004403928

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CEG/CEG-Rio

- Enron acquired its interest in CEG/CEG-Rio gas LDCs in July 1997 through participation in a consortium including Gas Natural, Iberdrola, and Pluspetrol
- Consortium was the winning bidder in the privatization of the gas distribution companies that held the concessions for the state of Rio de Janeiro, Brazil
- Enron total cash investment = US\$266.5 MM
- Enron held an open auction process for the Brazilian gas LDCs in November, 2000 (CEG/CEG-Rio + Gaspart). Eight multinational energy companies participated in the auction
- Petrobras only company to offer an expression of interest for CEG/CEG-Rio
- Negotiated PSA with Petrobras to sell Enron's interest for US\$241MM plus relinquishment of Petrobras' rights of first refusal over Enron's shares in the Gaspart LDCs (relinquishment valued by CSFB at \$40 - \$60MM)

EC004403929

Financial Impact

- Balance Sheet As of December 31, 2000:

| | |
|-----------------------------|-------------------|
| Initial Investment | \$266.5 MM |
| Equity Earnings | 6.4 MM |
| Goodwill Amortization | <u>(3.1) MM</u> |
| Book Value | \$269.8 MM |
| Cumulative Translation Adj. | <u>(118.1) MM</u> |
| Equity Net of CTA | \$151.7 MM |

- Income Statement Impact of Sale

| | |
|--------------|-----------------|
| Basis | \$269.8 MM |
| Sale Price | <u>241.0 MM</u> |
| Loss on Sale | \$ 28.8 MM |

EC004403930

AGENDA ITEM 5(f)
(SUGGESTED FORM OF RESOLUTIONS)

WHEREAS, Enron Corp. (the "Company ") has substantially finalized negotiations for a definitive Purchase and Sale Agreement (the "Share Purchase Agreement"), between the Company, as Parent, and Petróleo Brasileiro S.A. – Petrobras ("Petrobras"), as Acquiror, to be additionally joined by Enron International Brazil Gas Holdings LLC, a Delaware limited liability company and indirect subsidiary of Enron, as Seller, and Brasperno Oil Service Co. – Brasoil, a Cayman Islands company and a subsidiary of Petrobras, as Buyer;

WHEREAS, the Share Purchase Agreement provides for the purchase and sale of 100 % of the outstanding securities (the "Securities") of Enron International Brazil Gas Holdings Ltd., a Cayman Islands company, and Enron International Brazil 1997 Ltd., Cayman Islands subsidiaries of the Company, which together, own through other subsidiaries all of the Company's direct and indirect equity interests in Companhia Distribuidora de Gas do Rio de Janeiro - CEG ("CEG") and CEG Rio S.A ("CEG-Rio");

WHEREAS, CEG and CEG-Rio are the Brazilian companies that hold the natural gas distribution franchises for the city and state, respectively, of Rio de Janeiro, Brazil; and

WHEREAS, Enron desires to sell the Securities for a cash purchase price of US \$241 Million and other consideration set forth or to be set forth in the Share Purchase Agreement under the terms set forth or to be set forth therein, as such terms are finally negotiated and agreed pursuant to this Resolution, and to take all other actions required or appropriate in connection with the effectuation of such sale of the Securities;

NOW, THEREFORE, IT IS RESOLVED, that the Board of Directors hereby approves the form, terms and provisions of the Share Purchase Agreement and hereby authorizes the Authorized Officers (as hereinafter defined) to execute and deliver, for, in the name and on behalf of the Company, the Share Purchase Agreement with such changes therein to reflect final negotiation of the terms thereof as the officers executing the same shall approve, their execution of the Share Purchase Agreement (the "Definitive

EC004403933

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Share Purchase Agreement") to be conclusive evidence of such approval; and

RESOLVED, FURTHER, that the Office of the Chairman be, and hereby is, authorized, empowered and directed in the name and on behalf of the Company, (i) to complete the negotiations of the terms of the Share Purchase Agreement, (ii) to determine the final terms and conditions of the Definitive Share Purchase Agreement, (iii) to approve the sale of the Securities upon the final terms and conditions of the Definitive Share Purchase Agreement, and (iv) to authorize and approve any and all further actions that may be required or appropriate to be taken by the Company and/or its relevant subsidiaries and controlled affiliates, as contemplated the Definitive Share Purchase Agreement; and

RESOLVED FURTHER, that the Office of the Chairman be, and hereby is, authorized, empowered, and directed in the name and on behalf of the Company, under its corporate seal or otherwise, to take such further actions as it shall deem necessary or appropriate, including, without limitation, the authority and power to approve the execution of such other agreements, documents or instruments as are contemplated to be executed and delivered by the Definitive Share Purchase Agreement or are deemed necessary or appropriate to sell the Securities under the terms and conditions of the Definitive Share Purchase Agreement; and

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, any Vice President, any Managing Director, the Treasurer, or any Assistant Treasurer of the Company (the "Authorized Officers") be, and each such Authorized Officer hereby is (any one of them acting alone), authorized in the name and on behalf of the Company to take or cause to be taken such action as such Authorized Officer may deem necessary or desirable in connection with the performance by the Company of its obligations under the Definitive Share Purchase Agreement or any other agreement, document, or instrument related to the transaction contemplated by these Resolutions; and

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these Resolutions, including without limitation the execution, delivery, and performance of any of the agreements referred to above or any guaranties, instruments, or

EC004403934

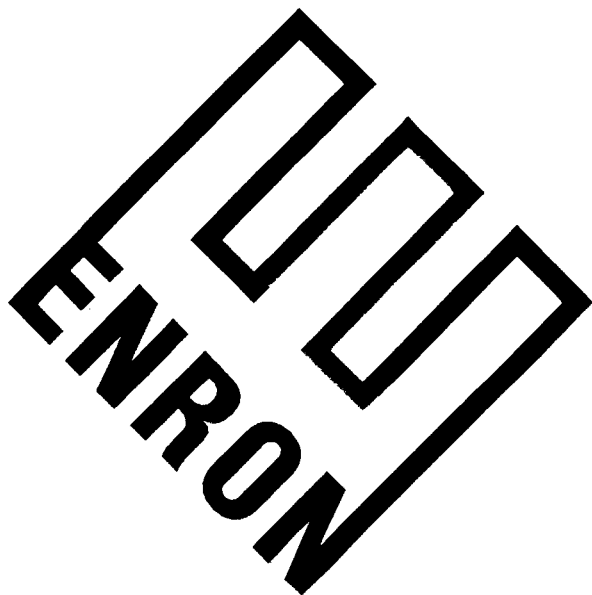
5F-7

other documents as any such Authorized Officer shall have deemed necessary, proper, desirable or advisable in connection with the Share Purchase Agreement or the Definitive Share Purchase Agreement, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the Authorized Officers of the Company be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further actions, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing premises and Resolutions.

Agenda Item 5g

EC004403936



Project Red Rock

Enron Transportation Services

Presentation to the Enron Corp. Finance Committee

April 30, 2001

Transwestern Pipeline Company Red Rock Expansion

- **California market currently short on pipeline capacity.**
- **Transwestern is proposing a 150,000 MMBtu/d expansion from various input points to markets in California or near the California border.**
- **Expansion will be accomplished by adding 4 compressors to existing pipeline.**
- **Increases Transwestern's west capacity to ~~from 960,000 to 1,110,000~~ MMBtu/d.**

1,240,000

Timeline

- **Open Season Conducted in November 2000**
- **FERC Filing in March, 2001**
- **Current Status:**
 - **Negotiating Contracts**
 - **Accepting Definitive Bids for Capacity**
- **Expect Contract Completion in 60 Days**
- **Expected In Service Summer 2002**

Potential Load

Open Season & Contract Negotiations

| <u>Company</u> | <u>Amount</u> (MMBtu/d) | <u>Price</u> | <u>Term</u> |
|----------------------------|----------------------------|--------------|-------------|
| Pennsylvania Power & Light | 8,000 | .35 | 30 yrs. |
| | 12,000 | .40 | 30 yrs. |
| Western Gas Resources | 5,000 | .38 | 15 yrs |
| | 5,000 | .39 | 15 yrs |
| Dynegy | 30,000 | .55 | 5 yrs |
| Calpine | 90,000 | | |
| SoCal | 50,000 | | |

EC004403940

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Recommendation

Delegate authority to Jeff Skilling to Approve Transwestern's \$95 million Red Rock expansion subject to successful completion of contract negotiations.

EC004403941

5G-5

AGENDA ITEM 5(g)
(SUGGESTED FORM OF RESOLUTIONS)

WHEREAS, Transwestern Pipeline Company, a company incorporated under the laws of the State of Delaware ("TW") and an indirect, wholly-owned subsidiary of the Company, has made an application to the Federal Energy Regulatory Commission, requesting permission and approval to: (1) abandon certain compressor station facilities and (2) construct and operate certain compressor station facilities all located within the state of Arizona, thereby creating incremental mainline capacity to the California border;

WHEREAS, TW proposes to abandon in-place the existing units at Station 1 through Station 4 and to install one nominally ISO rated 41,500 horsepower unit at each compressor station, which are all located within the state of Arizona, and as a result of the proposal, TW will be able to flow 150,000 Mcf per day (Mcf/d) of incremental firm capacity on its mainline from Thoreau to California, increasing its total capacity to the California border to 1,240,000 Mcf/d, with compressor units in-service by June 1, 2002, and with anticipated costs totaling \$95, 000,000 (the "Redrock Expansion" or the "Project");

WHEREAS, as a condition to the commencement of construction on the Project TW anticipates having in place transportation service agreements with projected revenues covering 100% of the Project costs (the "Service Agreements");

WHEREAS, various affiliates of the Company may in the future enter into agreements with TW pursuant to which such affiliates have provided and/or will provide goods and/or services for purposes of the Redrock Expansion or may purchase services from TW as set forth in such agreements (each such agreement, an "Affiliate Agreement"). Such Affiliate Agreements include but are not limited to the following:

- a. Operation and Maintenance Agreements related to the Project;
- b. Fuel Management Agreements; and
- c. Construction Service Contracts;

EC004403942

WHEREAS, the Company, through its affiliates, currently owns a controlling interest in TW, and such ownership will benefit, directly or indirectly, the Company;

NOW, THEREFORE, IT IS RESOLVED, that the Company be, and it hereby is, authorized to take such action as the appropriate officers of the Company deem necessary or desirable in connection with the completion and commissioning of the Project, subject to the following conditions: (1) that the terms and conditions of the Service Agreements shall have been approved by Jeffrey K. Skilling, or any officer or agent of the Company authorized by him to grant such approval, and (2) TW having executed the Service Agreements;

RESOLVED FURTHER, that the Chairman of the Board, the Vice Chairman of the Board, the President, any Managing Director, any Vice President, the Chief Financial Officer, the Treasurer or any Deputy Treasurer of the Company be, and each of them hereby is, authorized in the name and on behalf of the Company, under its corporate seal or otherwise, to take such action and to do all things that may appear to be reasonably necessary, in the sole discretion of any of such officers, to undertake, effectuate and carry out the completion and commissioning of the Project, insofar as such action or things relate to the Company, including without limitation, the authority and power to negotiate, execute, deliver, amend, perform, and consummate the agreements described above and such other agreements, instruments, or documents as such officer may deem necessary or desirable to carry out the purpose and intent of the foregoing premises and resolutions, in such forms as shall be approved by the officer executing the same, such approval to be conclusively evidenced by the execution thereof by such officer;

RESOLVED FURTHER, that all actions heretofore taken by any officer of the Company, related to or in connection with the transactions contemplated by these resolutions, including without limitation the execution and delivery of any of such instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed and approved in all respects; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone)

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to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing premises and resolutions.

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Agenda Item 6

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Other Business

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6 - 1

Agenda Item 7

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Adjourn

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| | | Page |
|--|---------------------|------|
| 1. Approval of February 12, 2001 Finance Minutes subject to final legal review | Mr. Winokur | 1-1 |
| 2. Financial Reports | | 2-1 |
| A) Chief Financial Officer Report | Mr. Fastow | 2A-1 |
| B) Deputy Treasurer Nomination Discussion | | 2B-1 |
| 3. Treasurer Report | Mr. Glisan | 3-1 |
| 4. Chief Risk Officer Report | Mr. Buy | 4-1 |
| Quarterly Risk Update | | |
| - Enron's Assets | | 4-2 |
| - Trade Credit Update | | 4-3 |
| - Investment Portfolio | | 4-11 |
| - Enron Energy Services | | 4-16 |
| - Market Risk Update | | 4-23 |
| 5. Projects and Amendments | | 5-1 |
| A) Revision to the Risk Management Policy | Mr. Buy | 5A-1 |
| - Approve for Recommendation to the Board | | |
| B) Revision to the Transaction Approval Process | Mr. Buy | 5B-1 |
| - Approve for Recommendation to the Board | | |
| C) Minority Financing Vehicle | Mr. Causey | 5C-1 |
| - Approve for Recommendation to the Board | | |
| D) Las Vegas Cogen II | Mr. Calger | 5D-1 |
| - Approve for Recommendation to the Board | | |
| E) Cuiaba Integrated Energy Project | Ms. McDonald | 5E-1 |
| - Approve for Recommendation to the Board | | |
| F) CEG Rio Divestiture | Mr. Stabler | 5F-1 |
| - Approve for Recommendation to the Board | | |
| G) Project Red Rock | Mr. Horton | 5G-1 |
| - Approve for Recommendation to the Board | | |
| 6. Other Business | | 6-1 |
| 7. Adjourn | | 7-1 |

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